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## INTERACT COMPENDIUM

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# Compendium of First Level Control Procedures in Territorial Cooperation

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INTERACT is designed to capitalise on the vast pool of experience and expertise accumulated through INTERREG in the areas of regional development, cross-border cooperation, transnational cooperation and interregional cooperation.

This publication was drafted by the audit expert Susanne Volz and INTERACT Point Vienna based on extensive inputs received from first level controllers and programme finance managers. The compendium was further developed during a peer review process, which involved first level controllers as well as the other INTERACT Points and the European Commission. INTERACT welcomes further inputs to the compendium in order to ensure continuous development of the practicability of the compendium and the knowledge contained. This process and is led by Katrin Stockhammer of the INTERACT Point Vienna.

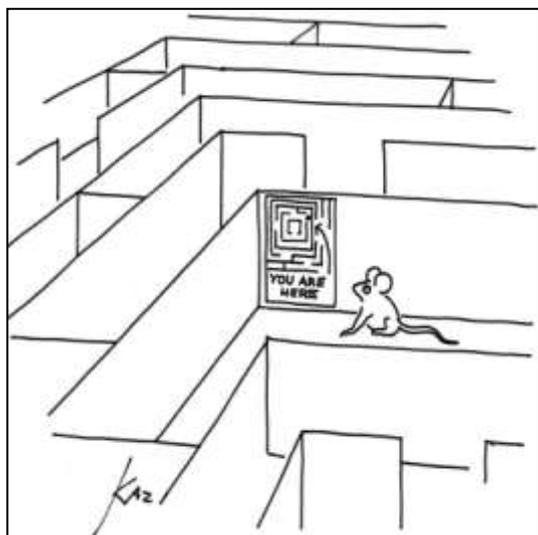
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## 1. What is this and what are the objectives of this document?



INTERACT aims with this compendium to provide a concise and practical overview of first level financial control procedures commonly used in European territorial cooperation (ETC) and IPA-CBC programmes under shared management ('territorial cooperation programmes')<sup>1</sup>.

There are already quite a few good descriptions of financial control procedures but none of them is focused on first level control (FLC) in territorial cooperation programmes. Furthermore FLC now clearly requires on-the-spot verifications in addition to administrative (i.e. desk-based) verifications. One of the consequences is that control procedures typical for on-the-spot verification, such as

interviews and walk-throughs, may now be used more widely throughout the community.

With this compendium, INTERACT does not intend to introduce completely new control procedures or tools but aims at providing an inventory of procedures already used by controllers. Although some of the procedures and terminology may be new to some controllers, **most controllers will find that they are already familiar with the procedures presented here and have been applying them already in their everyday work.**

In preparing this compendium, we have drawn heavily not only on regulatory, country and programme requirements but also on practical experience of controllers, who have been carrying out FLC in cooperation programmes and its predecessor INTERREG. INTERACT and controllers engaged in developing the content view this compendium as a further step towards ensuring higher quality of first level control. By supporting the ongoing discussion on suitable control procedures and a common understanding of control terminology and standards, we also hope to contribute to more effective communication, not only among national controllers in different countries but also

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<sup>1</sup> For the purpose of this compendium, we use the term 'territorial cooperation programmes' to refer to both European territorial cooperation (ETC) programmes between member states AND IPA-CBC programmes under shared management between member states and IPA (Instrument for pre-accession assistance) countries. ETC is the Objective 3 of the 2007-2013 EU Cohesion Policy. It was established in 1990 and was previously the community initiative programme NTERREG. IPA is the instrument for pre-accession assistance, established by Reg. (EC) no. 1085/2006. Its component 2 addresses cross-border cooperation (CBC) between member states and IPA countries (or among IPA countries). Article 13 explicitly provides that IPA-CBC programmes with member states may be run in shared management, with requirements similar to those establishes for ETC programmes. Eight out of ten IPA-CBC programmes with Member States are run under shared management. As far as possible, and except for some specific provisions (such as the IPA- CBC public procurement rules), this compendium applies also to IPA-CBC programmes under shared management. For more information see also <http://interact-eu.net> or [http://ec.europa.eu/dgs/regional\\_policy/index\\_en.htm](http://ec.europa.eu/dgs/regional_policy/index_en.htm)

between controllers and programme management and control bodies (i.e. managing authorities, audit authorities, intermediate bodies, etc.).

We accept and assume, however, that **not all control procedures discussed will be relevant to all FLC systems** and that any procedure or tool suggested may need adjustments before it can be used. Furthermore, the presented collection of control procedures is by no means complete, exhaustive or legally binding. Procedures presently NOT included in the compendium are, for example, methods for sampling of beneficiaries or transactions or very specific control procedures such as obtaining third-party confirmations. If requested, these and other procedures can be included in the compendium. Interested controllers can also contact INTERACT to obtain more information on these procedures.

We took as a starting point for this compendium the applicable EU regulations governing the 2007 - 2013 funding period, in particular Reg. (EC) no. 1080/2006<sup>2</sup>, (EC) no. 1083/2006<sup>3</sup> and (EC) no. 1828/2006<sup>4</sup>, as well as their respective amendments and corrigenda, especially (EC) no. 846/2009<sup>5</sup>. The compendium also draws on input received by the European Commission and interpretations of these regulations by the European Commission, contained in the EC guidance note on management verifications<sup>6</sup>.

Interviewing professionals from all over Europe, who have been carrying out FLC in territorial cooperation programmes has provided an invaluable and much appreciated source of information.

In the drafting of the document, INTERACT was supported by an external expert, who has many years of experience in audit and second level control of ETC/INTERREG programmes. This cooperation allowed us to add the expert's personal experience and point of view as to the picture. Especially her experience as an auditor and her insights on how a second level controller views first level control procedures helped shape the compendium and added value.

***Obviously the authors cannot provide guarantee that the procedures outlined in this compendium will be suitable for all countries and cooperation programmes and will be accepted by all second level controllers. Therefore it is important that controllers and***

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<sup>2</sup> Reg. (EC) no. 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Reg. (EC) no. 1783/1999

<sup>3</sup> Council Reg. (EC) no. 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Reg. (EC) no. 1260/1999

<sup>4</sup> Commission Reg. (EC) no. 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Reg. (EC) no. 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Reg. (EC) no. 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund

<sup>5</sup> Commission Reg. (EC) no. 846/2009 of 1 September 2009 amending Reg. (EC) no. 1828/2006 setting out rules for the implementation of Council Reg. (EC) no. 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Reg. (EC) no. 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund

<sup>6</sup> Guidance document on management verifications to be carried out by Member States on operations co-financed by the Structural Funds and the Cohesion Fund for the 2007 - 2013 programming period; Final version of 05/06/2008; COCOF 08/0020/04-EN

*auditors communicate early on and agree on standards and procedures used by first level control during their work.*

### Who is the main target group?

In cooperation programmes, control and audit of expenditure are carried out at various levels.<sup>7</sup> This compendium focuses on first level control and addresses this stage of control only:

The primary target group of this compendium are first level controllers ('controllers') in the sense of Article 16 of Reg. (EC) no. 1080/2006. Controllers are designated by the Member States under the condition of functional independency from other management and implementing bodies. Throughout Europe different FLC systems are in place, ranging from highly centralized to highly decentralized systems. Most cooperation programmes have at least two first level control bodies, one on each side of the border. There are, however, also a few programmes in Europe in which FLC is undertaken by one joint first level control body.

Programme managers involved in first level control tasks are also a target group of this compendium, although not the primary target group. Usually managing authorities (MA) and joint technical secretariats (JTS), including - in some cases - national or regional contact points, also have first level control tasks. These tasks are related, for instance, to checking the compliance of project activities with the project description approved by the programme steering committee. For the purpose of this compendium, procedures described are usually understood as referring to checks undertaken by first level controllers. As the role and extent of controls by FLC, MA and JTS vary widely throughout Europe many procedures described here will also be relevant to programme managers.

Certifying authorities, audit authorities and other auditors as well as project beneficiaries are NOT the target group of this compendium, although they may take an interest in its content.

*This compendium of first level control procedures in territorial cooperation is work in progress and INTERACT welcomes further inputs, suggestions and improvements. We invite all interested controllers and programme managers to help us draft this compendium by sharing their personal experiences with us and providing insights and suggestions on how to improve this document. INTERACT will continue to include these inputs in the draft compendium. If you wish to contribute please contact [katrin.stockhammer@interact-eu.net](mailto:katrin.stockhammer@interact-eu.net).*

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<sup>7</sup> The various levels of control and audit include: internal control by beneficiaries, controls by lead partners, first level control by controllers and managing authorities / joint technical secretariats, controls by certifying authorities, audits by audit authorities, European Commission auditors and others.

## Why is INTERACT interested in developing an FLC procedures compendium?

Early in the 2007 - 2013 funding period, INTERACT was approached by ETC and IPA-CBC controllers, who wanted to intensify discussions about their everyday work and to gain more certainty about the procedures they apply.

So far, most discussions have focused primarily on checklists or control reports rather than underlying procedures and work-flows. In territorial cooperation, all controllers use checklists and/or control reports as the basis for their control work and to document the checks undertaken. Checklists and control reports are very useful tools to ensure that the basic checks are covered and nothing is forgotten. However, at the time of drafting this compendium, the extent of and approach to control checklists and control reports vary widely across Europe: there is neither a one-size-fits-all control checklist available nor a commonly accepted best practice example. This is natural given the diversity of control systems in Europe but often represents a challenge to programme stakeholders, beneficiaries and controllers.

Many controllers have also pointed out that over time the control checklists have had a tendency to increase substantially in complexity. For instance, control checklists used in the 2000 - 2006 funding period were much simpler compared to control checklists used in the current 2007 - 2013 period. Increasing the complexity of checklists and control reports in an attempt to cover all eventual cases, beneficiaries and projects, is not only a natural reaction to past high error rates and existing uncertainties. It also reflects difficulties sometimes encountered in the past, in communicating to second level controllers (and other auditors) the full extent of checks actually done and the quality of FLC work. At the same time, it is, however, clear that no checklist or control report will ever be complete or sufficient if controllers rely solely on the lists and avoid any checks exceeding those listed. Overly complex lists also have the disadvantage that they may require unnecessary checks and can sometimes be hard to handle.

Obviously, checklists and control reports also provide information on what needs to be checked rather than how. For instance, a checklist requiring verification that 'staff costs can be verified on the basis of supporting documents, have actually been incurred and paid by the beneficiary and are plausible' gives no guidance on how the checks can be performed or what would be sufficient to meet the requirements. By focusing on the 'how', rather than the 'what' we try to look behind the curtain and start investigating what procedures lie behind the checklists and control reports and how quality can be ensured without expanding the checklists.

**Ultimately, our aim is to reduce complexity.** We hope that complementing existing checklists with some considerations on procedures can give controllers tools they can apply, vocabulary to communicate their work and ultimately more certainty in their work.

## Experiences

- *The standard now is to tick off items on long checklists issued by the programmes. But what does a 'yes' or a 'no' really mean on a checklist? Controllers must obtain a feeling for the institution and the people involved and this can be something quite outside the scope of a checklist. We need 'creative control' with more room for manoeuvre for controllers and more reliance on professional judgement (Christa Bradler- FLC expert, Styria, Austria).*
- *Checklists differ from programme to programme. Some checklists have very detailed questions, some of them are general. The reason for that is that different programmes pay attention to*

*different aspects of control. My general observation is that checklists are longer and longer but still there are many areas of control not covered by the checklists. It is the controller's professional judgement that really matters and the longest checklist will not be able to change it. (Katarzyna Suda-Puchacz - FLC expert, Poland)*

### **How can I use this compendium?**

This compendium is a collection of procedures already applied by ETC and IPA-CBC controllers within the various frameworks of national and programme requirements. Controllers new to the field of first level control in territorial cooperation programmes can use this compendium to obtain a quick overview of FLC procedures, some applications of the procedures and also some of their limitations. More experienced controllers can use the compendium to compare what is described here with their own experience and practice - and enrich the compendium by providing information on their own insights.

The compendium is structured by sections on control procedures and it is possible to read only parts of it depending on personal interest and preferences. Each section includes:

- A definition of the procedure;
- Information on how to apply the procedure;
- Information on how to document the work done;
- Insights and experiences from controllers, programme managers, the external audit expert, INTERACT, etc.

In reading this compendium you will:

- Gain an overview of many procedures used by first level controllers of territorial cooperation programmes;
- Learn more about how the procedures can be applied to achieve certain control objectives;
- Gain more security to decide in which cases a certain control procedure is appropriate;
- Obtain practical information on control procedures based on current practices of fellow controllers.

Please note, however, that the compendium **does NOT provide a roadmap on how to do first level control in territorial cooperation programmes**. Since Member State approaches and programme requirements differ across Europe, we can only offer general information rather than provide a clear and simple solution that fits all. Furthermore, in the future changes may occur to the legal requirements regarding FLC that would also need to be taken into consideration when designing the control systems and tools.

## 2. Which procedures has INTERACT identified?

Every administrative and on-the-spot check consists of a set of procedures that is applied by controllers in chronological order. In practice, there are only a small number of key procedures that underlie checklists and control reports, namely the **check of completeness**, the **check of compliance**, the **check of plausibility** and the **check of existence and reality**. These key procedures are applied by controllers, often along the main cost categories such as staff costs, overheads or external expertise.

The figure below illustrates an example of the application of the procedures to controlling staff costs in chronological order. It is not always the same order for all controllers and sometimes more than one procedure is applied at the same time. For instance, experienced controllers sometimes check some aspects of plausibility already while checking the completeness of documents. In essence, however, most questions in checklists can be answered using one or more of the identified key procedures. These key procedures are also called **substantive procedures**. Substantive procedures have a clear control objective (e.g. ‘checking compliance’) and are usually done with the explicit intention to determine the amount of eligible and ineligible expenditure.

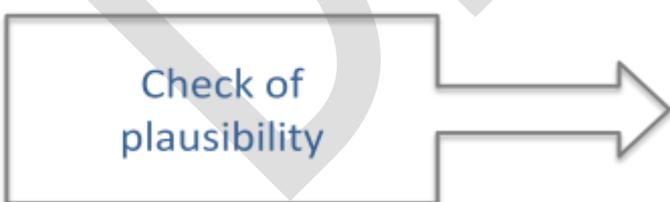
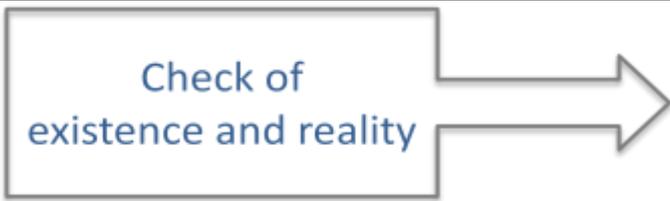
Control Procedure (substantive procedures)	Control Objective
 <p>Check of completeness</p>	<p>Verify that staff costs are supported by all relevant documents such as time sheets, contracts, calculation schemes, etc.</p>
 <p>Check of compliance</p>	<p>Verify that staff costs comply with relevant legislation, the OP and the subsidy contract, e.g. that they:</p> <ul style="list-style-type: none"> <li>• are directly related to the project</li> <li>• have been incurred in the eligible period, etc.</li> </ul>
 <p>Check of plausibility</p>	<p>Verify that staff costs are plausible (i.e. credible and probable), e.g. in terms of:</p> <ul style="list-style-type: none"> <li>• hours worked and output generated</li> <li>• timing of work</li> <li>• hourly rates, etc.</li> </ul>
 <p>Check of existence and reality</p>	<p>Verify, e.g. in the course of an on-the-spot check, that project staff, project activities, etc. exist in reality.</p>

Figure 1: EXAMPLE of the use of substantive procedures in administrative and on-the-spot checks for the verification of staff costs

**Substantive procedures set the framework and objective within which control work is organised.** Substantive procedures usually consist of a set of sub-procedures and we need to take a closer look to find out which **sub-procedures usually underlie the substantive procedures**. For instance, what sub-procedures underlie a typical check of plausibility? As illustrated in the figure below, there is a quite well defined set of sub-procedures, which can underlie all substantive procedures:

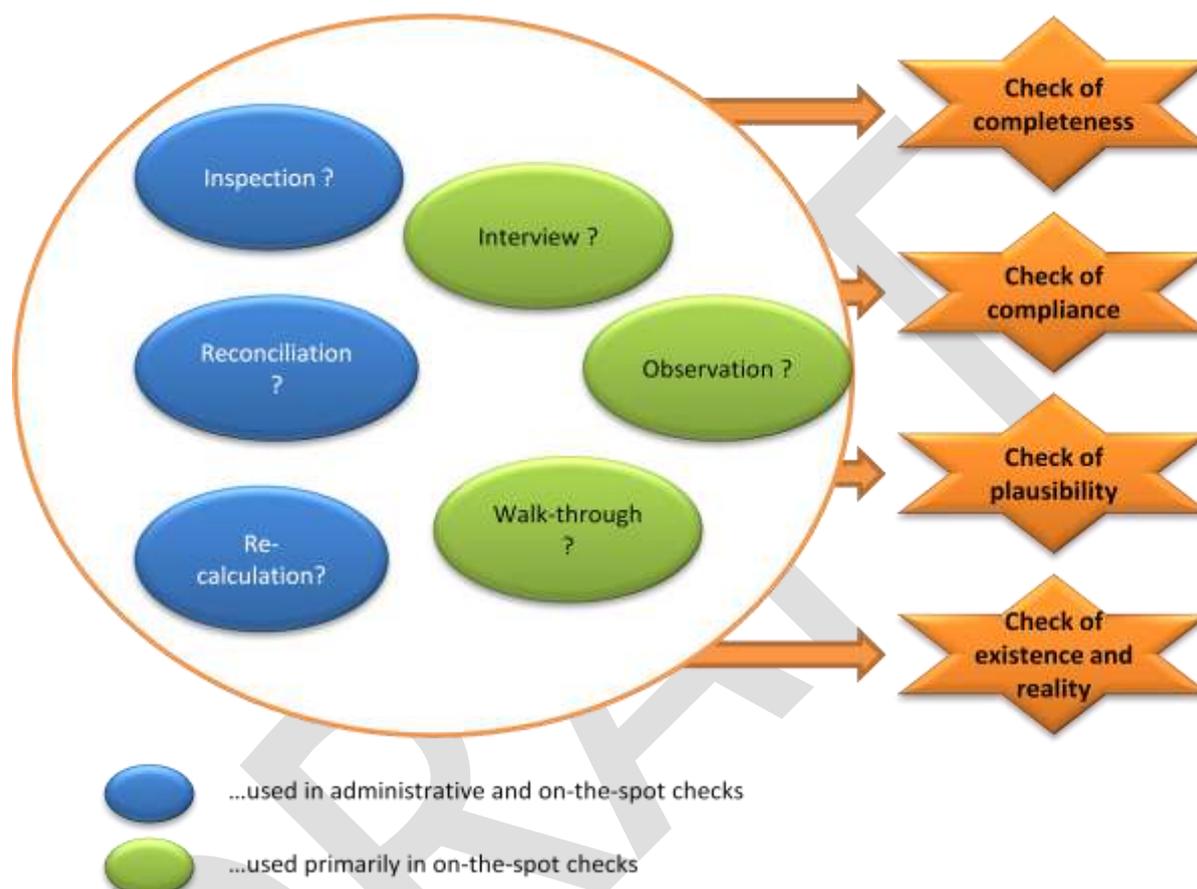


Figure 2: Sub-procedures underlying substantive procedures in administrative and on-the-spot checks

**NOTE:** In very few cases, a substantive procedure will involve ALL sub-procedures mentioned here. More often, a SELECTION OF SUB-PROCEDURES is used to reach the control objective.

- The most fundamental sub-procedure underlying most administrative as well as many on-the-spot checks is the **inspection of documents and records**. In simple terms, inspection is the reading and understanding of any relevant document, electronic record or print out of an electronic record.
- Another set of sub-procedures relates to numbers rather than contextual information, namely the **reconciliation of summary figures** and the **re-calculation**. Like inspections, they can also be applied to all substantive procedures such as reconciling staff costs with bank account statements and re-calculating staff costs in order to check plausibility.
- As it is the case for inspections, reconciliations and re-calculations, also **interviews, observations and walk-throughs** can be applied as deemed appropriate. For instance, a check of

existence and reality of a project event could involve the inspection of project documents (to find out which events are planned), an interview (to find out more about the planned event) and an observation (to see if the event exists in reality).

Interviews (e.g. of the project coordinator), observations (e.g. of a project event) and walk-throughs (e.g. of a public procurement undertaken by the beneficiary) are primarily used in on-the-spot verifications.<sup>8</sup> On-the-spot controllers use many of the procedures they apply in administrative verifications plus additional procedures such as interviews, observations and walk-throughs. For this reason, the portfolio of procedures available on-the-spot is larger compared to the one available for administrative verifications.

For the sake of completeness it should also be mentioned that sometimes controllers apply sub-procedures with the primary intention of obtaining an overview and understanding of the project rather than to use them in support of a substantive procedure. For instance, an on-the-spot check could involve a general opening interview with the primary intention of obtaining further information. In these cases, the primary aim of the interview is gaining an overview as well as identifying and assessing potential risks<sup>9</sup>.

Some information on how to organise an on-the-spot verification is also included in [Section 6](#) (Example workflow of an on-the-spot check).

### 3. How is the compendium structured?

The compendium is divided in two main sections: The first section covers substantive procedures and the second section covers sub-procedures. This is also indicated in the header of each page:

Substantive control  
procedure

Sub-procedure

Each section first outlines procedures used in administrative AND on-the-spot checks and then procedures used PRIMARILY during on-the-spot checks. This is indicated in the header of each page as well:

Administrative and  
on-the-spot checks

On-the-spot checks

The compendium also includes a section on documentation of FLC. A **glossary of the most important terms and abbreviations** can be found in the end of the compendium.

<sup>8</sup> For the sake of completeness, it should be mentioned that in some FLC systems interviews are also conducted at the premises of the controller and thus - in these cases- can also be part of administrative checks.

<sup>9</sup> We are aware that some of the sub-procedures discussed here, according to international standards of auditing, are more related to so-called risk assessment procedures than to substantive procedures. However, as this compendium intends to cover the actual use of procedures by first level controllers, we focus on their application as substantive procedures.

## 4. Substantive control procedures

### 4.1. Check of completeness



Checks of completeness intend to check whether information provided by the beneficiary is complete. This can relate, for instance, to the completeness of documents attached to the financial report but also to the completeness of revenues deducted.

Checks for completeness are substantive procedures that are commonly used by controllers in administrative and - to a lesser extent - in on-the-spot checks.

#### What do controllers check in terms of completeness?

The EC guidance note on management verifications requires that *'all applications for reimbursement by beneficiaries, whether intermediate or final applications, should be subject to administrative verifications based on an examination of the claim and relevant supporting documents such as invoices, delivery notes, bank statement, progress reports and time sheets'*.

EXAMPLES of checks of completeness include:

- Verification that expenditure items listed in the list of expenditure and declared in the financial report are supported by invoices or documents of equivalent probative value (see also [Section 5.1](#) - Inspection of documents and records - for information on documents checked);
- Check whether the audit trail is complete, including the documents archived by the beneficiary;
- Check whether all revenues have been deducted as appropriate;
- During on-the-spot checks, checking the completeness of the beneficiary's accounting can also provide valuable information on the reliability of the system (e.g. whether the cost centre for the project contains all cost items);
- Others

## How do controllers check completeness?

The box below provides an example of a check of completeness in chronological order.

EXAMPLE chronological order of the checks of completeness - staff costs

- 1) Identify issue to be checked (e.g. completeness of staff cost documentation)
- 2) Identify relevant types of documents to be checked (e.g. pay slips, monthly time sheets per employee, time sheet summaries, etc.)
- 3) Decide on extent of checks: Most FLC systems require coverage of all project-related staff costs and all months. In case sampling is allowed (e.g. during conducting an on-the-spot check) it can be appropriate to select a sample (e.g. one month for all employees).
- 4) Perform check: Inspect available documents to see whether documents and records are complete. If documentation is not sufficient, try to obtain the missing documents from the beneficiary.
- 5) Assess results and draw conclusions. In case problems or errors are detected, determine the misstated amount.
- 6) Document the results.

## How can the checks be documented?

Many checklists ask for checks of completeness (e.g. 'documents sent by beneficiary are complete', 'all revenues have been deducted', etc.). In these cases including a comment (i.e. 'yes') or ticking the foreseen box in the checklist/control report can be sufficient to document that the check of completeness was done.

In cases where checks of completeness are not included in the checklist/control report but found necessary by the controller, it can, for example, be sufficient to obtain a list of items (e.g. list of required supporting documents; list of revenues generated) and make tick-marks next to every item that has been verified. For this purpose, defining the meaning of the tick-marks can be very helpful (see also [Section 7](#) - Documenting FLC checks - for more information on defined tick-marks).

## Experiences

- *Our first check for administrative verification is whether the financial report is verifiable. For this, it must be complete. Completeness involves that all required documents are available and that all necessary signatures have been made. (Thomas Grass - FLC expert Burgenland). [Link to completeness check, inspection, administrative verifications](#)*
- *The extent of completeness checks varies with the number of documents requested by FLC. More extensive checks of completeness, such as the completeness of the procurement file, are often easier to undertake on-the-spot (Susanne Volz - Audit expert). [Link to to completeness check, public procurement, on-the-spot checks](#)*
- *During the administrative and/or on-the-spot checks, we also check the completeness of accounting systems: controllers select a sample of at least five invoices (or 20 %) and check if they are included in the analytical accounting system of the beneficiary (Eva Hrstkova - FLC*

*expert Czech Republic). [Link to completeness check, project revenues, accounting system, administrative verifications, on-the-spot checks](#)*

- *In order to check completeness of the accounting system, in my experience it can be useful to obtain a full list of project revenues and to check whether all revenues are included in the project cost accounting and deducted from the project costs. In case of doubt it may be helpful to check the beneficiary's bank accounts (Susanne Volz - Audit expert). [Link to completeness check, project revenues, accounting system, on-the-spot checks](#)*

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## 4.2. Check of compliance with EU and national legislation, operational programme and subsidy contract



Checks of compliance with legislation, operational programme and the subsidy contract check whether the beneficiary follows the legislation and rules governing the project. Compliance checks are substantive procedures that are commonly used by controllers in administrative and on-the-spot checks.

Many compliance checks are straightforward, with a clear control objective, a clear outcome and immediate effects on eligibility (e.g. expenditure was incurred during the eligible time period). Other compliance checks can be less straightforward such as those related to horizontal rules (e.g. 'equal opportunity and non-discrimination') or those

related to more complex legislation such as public procurement or State Aid.

### What do controllers check in terms of compliance?

There is usually very limited flexibility regarding the extent of compliance checks. They address key eligibility issues that need to be addressed by controllers during administrative and/or during on-the-spot verifications. The EC guidance note on management verifications outlines a set of required compliance checks - *'Depending upon the documentation supplied:*

- *The correctness of the application for reimbursement;*
- *That expenditure relates to the eligible period;*
- *That the expenditure relates to an approved operation;*
- *Compliance with programme conditions including, where applicable, compliance with the approved financing rate;*
- *Compliance with national and Community eligibility rules;*
- *Adequacy of supporting documents and of the existence of an adequate audit trail;*
- *Compliance with state aid rules, environmental rules and equal opportunity and non discrimination requirements;*
- *Compliance with EC and national public procurement rules;*
- *The respect of EC and national rules on publicity'.*

Sometimes it is not possible, nor is it necessary to draw a clear line between compliance checks and other checks such as check of completeness or check of plausibility. Ultimately all checks refer to regulations and rules and can - in a wide sense - be considered compliance checks. We discuss checks of completeness, plausibility and existence and reality separately because they use very distinct control methods.

## How do controllers check compliance?

Sub-procedures often used in compliance checks can include, for instance, inspections, interviews and observations. Controllers could for instance verify that all conditions outlined in the subsidy contract are complied with, by inspecting relevant documentation and records, by observing or inspecting project evidence and by interviewing responsible project personnel.

## How can the checks be documented?

Compliance checks are very decisive regarding the eligibility of expenditure and most FLC systems include compliance checks in their checklists, especially compliance with EU and national legislation and programme rules. In these cases, tick-marks on the checklist/control report and references to legislation can be sufficient.

In other cases, a simple documentation method is to take a copy of the regulation, the rules, the subsidy contract, etc., and tick-mark each issue that has been checked in terms of compliance. For this purpose, defining the meaning of the tick-marks can be very helpful (see also [Section 7 - Documenting FLC checks](#) - for more information on defined tick-marks). The tick-marked document can then be included in the working papers to document the checks performed.

## Experiences

- *During administrative verifications, we check the eligibility of expenditure, including: Does the invoice belong to the project? Has it incurred within the eligibility period? Is it actually paid? Is the invoice addressed to the beneficiary? Has recoverable VAT been deducted? Is the VAT regime correctly applied to the expenditure list? Were procedures for avoiding double financing respected? All these checks are checks of compliance with a specific rule. This is only a selection, we check much more for compliance such as public procurements (Thomas Grass - FLC expert Burgenland, Austria). [Link to compliance check, administrative verifications](#)*
- *During the administrative and/or on-the-spot checks, we also check compliance. E.g. in case of a Lead Partner, we verify whether FLC certificates of project partners were validated by FLC according to the requirements and if the LP makes payments to project partners (Eva Hrstkova - FLC expert Czech Republic). [Link to compliance check, audit trail, on-the-spot checks](#)*
- *It can be useful to check compliance after performing other control procedures such as checks for completeness and plausibility. Experience shows that compliance checks can often be performed quite quickly, after the checks for completeness, plausibility and existence and reality are done, as controllers have already reviewed a substantial part of relevant documents and might already have included these documents in the working papers (Susanne Volz - audit expert). [Link to compliance check, on-the-spot check, work programme](#)*
- *Verifications of compliance often constitute a significant part of administrative verifications. I find it very useful to undertake certain types of compliance checks on-the-spot, especially if they potentially involve a large number of documents (e.g. compliance with public procurement or publicity rules), immobile goods (e.g. investments) or complex procedures (e.g. public procurement) (Susanne Volz - audit expert). [Link to compliance check, public procurement, publicity requirements, investments, on-the-spot checks](#)*
- *Sometimes it is not clear what controllers should conclude regarding eligibility if publicity rules are only partly respected. There is an EC guidance document of 2001 entitled 'Guidelines on the principles, criteria and indicative scales to be applied by Commission departments in determining financial corrections under Article 39(3) of Reg. (EC) no. 1260/1999'. This*

document is old but still provides useful information on the execution of flat rate cuts (e.g. in the case of non-compliance with publicity rules) (INTERACT). [Link to compliance check, publicity requirements, errors and financial cuts](#)

### Avoiding double declaration of costs

- As a programme, we require voiding of original documents by means of a stamp. This stamp should at least include the name of the programme, the number and name (acronym) of the project and, if applicable, the share of costs claimed. Stamping can be performed by the controller or by the beneficiary (Luca Ferrarese - finance manager JTS Central Europe Programme). [Link to compliance check, double declaration of costs](#)
- For electronic invoices, we recommend to the FLC to verify the presence of a text identifying the project and the programme in the title of the invoice (Luca Ferrarese - finance manager JTS Central Europe Programme). [Link to compliance check, double declaration of costs](#)
- We receive a complete list of expenditure, all original documents, including bank account statements and everything related to procurement, etc. We receive a full set of copies as well. We stamp the original documents, which are sent back after the control report is finalised, and we archive the copies (Thomas Grass - FLC expert Burgenland, Austria). [Link to compliance check, double declaration of costs, inspection.](#)
- With more and more beneficiaries using e-mail invoices and internet banking, stamping 'original' documents may no longer be a practical way to avoid double declaration of costs. Legislators, programme bodies, auditors and controllers must continue to think about possible other approaches to this question (e.g. lump sums or flat rates) (Christa Bradler- FLC expert, Styria, Austria). [Link to compliance check, double declaration of costs](#)
- In my experience, it can be very useful to look into the accounting system of the beneficiary in order to understand how an institution allocates invoices. Control checks can include, for example, checking for a sample of invoices whether or not the same invoice appears in more than one cost centre and an interview of the accountant followed by a walk-through of the accounting system (Susanne Volz - audit expert). [Link to compliance check, double declaration of costs, plausibility check, inspection, accounting system, walk-through, on-the-spot checks](#)
- In order to avoid the double declaration of invoices, we ask for a print-out of the accounting system. During on-the-spot visits we inspect the accounting system. In times of electronic invoicing, this is a more reliable check than stamping the invoices (Aija Romanovska - FLC expert, Latvia). [Link to compliance check, double declaration of costs, plausibility check, inspection, accounting system, on-the-spot checks](#)
- In case of centralised FLC systems it is useful to do cross-checking of different projects implemented by the same project partner. The controller should pay special attention to the staff costs, especially cross-checking of timesheets of employees working for more than one project. Such a double-check can be done during both desk-based check and on-the-spot check (Katarzyna Suda-Puchacz - FLC expert, Poland). [Link to compliance check, double declaration of costs, plausibility check, inspection of document, administrative verifications, staff costs, on-the-spot checks](#)
- If project partners are involved in several projects, we ask for a list of all projects and a statement confirming that there is no double-declaration (Helmut Zimmermann - FLC expert, Carinthia, Austria). [Link to compliance check, double declaration of costs, plausibility check, documentation](#)
- It can be useful to use online search engines to inspect information about a beneficiary (e.g. field of expertise, other projects and funding sources, etc.) or management personnel (e.g. their activities in other organisations, roles in other projects). This can be an effective means to get a better understanding of the beneficiary and to detect, for instance, potential cases of

double funding (Maria Poulaki - FLC expert Greece). [Link to compliance check, double declaration of costs, plausibility check, inspection, external confirmations](#)

- In my experience, the more projects are implemented by an institution, the higher risk of double financing. In case of centralised FLC systems, the number of projects implemented by the partner can be a risk factor which should be included in the risk analysis prepared to choose projects to be verified on-the-spot. (Katarzyna Suda-Puchacz - FLC expert, Poland). [Link to compliance check, work programme, risk-based approach, on-the-spot checks](#)

### Compliance with public procurement rules

- Concerning expenditure that is under the public procurement threshold (e.g. renting of a venue for a workshop or layout for a brochure) it can sometimes be helpful to appeal to the common sense of beneficiaries project managers. Simply asking 'Do you always just buy the next best thing when you purchase some household appliance/piece of furniture for your home or do you compare value and price of different models first and maybe even look for special offers?' can help to raise awareness. (Christa Bradler- FLC expert, Styria, Austria). [Link to compliance check, public procurement](#)
- There are no clear recommendations if the controller should check public procurement for these cases: (1) An institution organises an open tender to buy goods/services that include the project-related ones for the whole institution. Should the controller check the whole tender even if the project-related purchase constitutes a small percentage of the whole purchase? What should controllers do if they find errors in this tender procedure? Who should be informed? (2) An institution buys equipment (e.g. IT) for the project but reports merely the equipment's depreciation as incurred costs. Should the controller check the public procurement procedure relating to this purchase? (Katarzyna Suda-Puchacz - FLC expert, Poland). [Link to compliance check, public procurement, inspection, work programme, errors and financial correction](#)
- Financial cuts in case of infringement of public procurement rules are not always easy to determine. There is a COCOF document entitled 'Guidelines for determining financial corrections to be made to expenditures cofinanced by Structural Funds of the Cohesion Fund for non-compliance with the rules on public procurement', which provides useful information (INTERACT). [Link to compliance check, public procurement; errors and financial corrections](#)

### Compliance with horizontal rules and state aid

- There is no clear role of FLC in case of checking compliance with the environmental rules. The number of EU environmental regulations and directives to be followed is very big and most of them do not relate to ETC projects since most of ETC projects are the 'soft-ones' with no investments. It would be advisable to develop a common understanding of these issues or the programmes authorities (JTS/MA/AA) should give controllers at least general hints how to cope with these issues. (Katarzyna Suda-Puchacz - FLC expert, Poland). [Link to compliance check, horizontal rules and state aid, role of FLC, work programme](#)
- With regards to state aid INTERACT has developed a specific seminar for ETC. For the purpose of this compendium, key outcomes of this work worth to be mentioned here are: 1) State aid has to be checked during the assessment of project proposals and NOT after expenditures occurred, in order to avoid problems with state aid later on; 2) During the assessment phase, programmes should carefully assess potential state aid with a focus on whether or not actual and quantifiable economic advantage is provided to beneficiaries; 3) If programmes want to grant state aid to beneficiaries this can be handled through either one of the following: application of the 'de-minimis rule'; an aid scheme of the general block exemption regulation (ad hoc or existing in the participating country); or notification to the European Commission (even though this is quite demanding and time consuming); 4) De-minimis is currently used by

*ETC programmes and requires a declaration signed by the beneficiary and a note in the subsidy contract (INTERACT). [Link to compliance check, horizontal rules and state aid, role of FLC, work programme](#)*

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### 4.3. Check of plausibility



Checks of plausibility aim at exactly that: checking whether a project-related issue as outlined in project documents or described by the beneficiary is plausible (i.e. credible and probable).

Basically any check involving professional judgement on the side of the controller such as checking value for money or the allocation of overheads, depreciations and staff costs to a project is a plausibility check.

Checks of plausibility are used in both administrative and on-the-spot checks. They can involve, for example, inspections, reconciliations, re-calculations, interviews and others.

#### What do controllers check in terms of plausibility?

In every project and for every beneficiary and report there are many aspects that can potentially be checked in terms of plausibility. Checklists can also require plausibility checks such as 'staff costs reported are plausible in light of the work produced'.

It is neither necessary nor is it possible to check every beneficiary and report in terms of every potential plausibility aspect. Instead, controllers apply professional judgement and decide, which plausibility checks are especially useful for a given project and beneficiary. For this, risk considerations can be helpful. For instance, controllers could decide to make certain plausibility checks of staff costs especially for those employees of the beneficiary, who have very high project-related staff costs. This is of course only possible for plausibility checks not covered by checklists. Plausibility checks included in a checklist must be performed as foreseen by the checklist.

Some EXAMPLES of plausibility checks include:

- Plausibility of project progress and financial report (e.g. plausibility of project progress in relation to the activities planned in the application form; plausibility of project outputs in relation to of staff hours and external expertise claimed, etc.);
- Plausibility of staff costs (e.g. plausibility of hours worked on the project in relation to the project progress and the outputs generated; plausibility of hours worked on the project in relation to other assignments of a staff member such as other projects, etc.);
- Plausibility of depreciation costs (e.g. in relation to other projects of the beneficiary, etc.);
- Plausibility of overheads (e.g. in relation to other projects of the beneficiary, etc.);
- Plausibility of other cost allocations to the project (e.g. allocation of costs of the use of a laboratory or machine to the project);
- Others

**How do controllers check plausibility?**

Controllers often need to rely on their experience and on their professional judgement in order to come to a conclusion. There are three common approaches to plausibility checks: Plausibility is either checked (1) within the project itself (e.g. comparing the reported costs to the project progress and outputs), (2) in relation to other activities of the beneficiary (e.g. comparing allocation of overheads, depreciations, staff costs, etc. across the various projects of the beneficiary) or (3) in relation to what is usual/common in the outside world (e.g. comparing costs with benchmarks, maximum/average/typical costs, etc.). This is illustrated below:

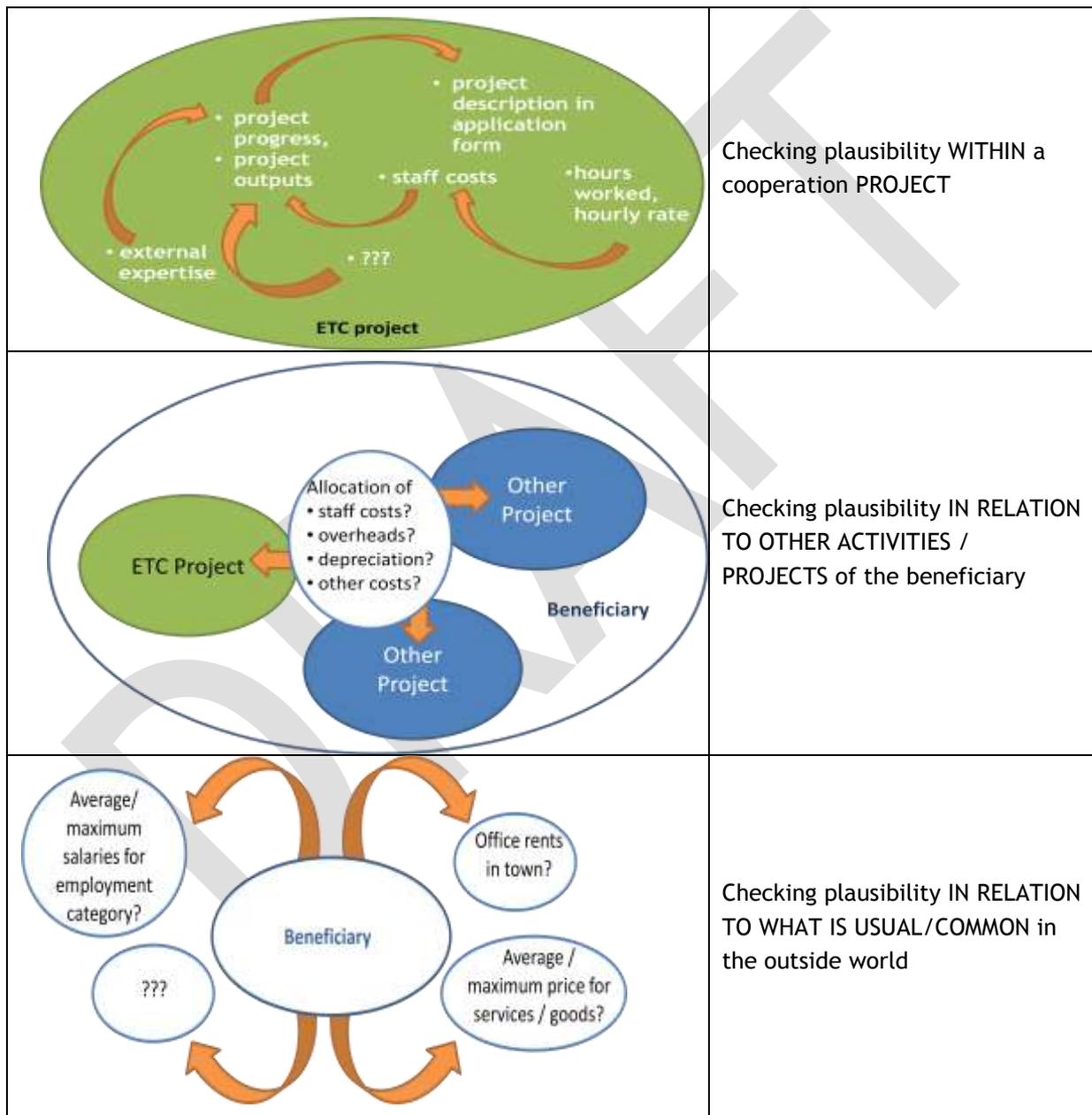


Figure 3: Plausibility can be checked within the project itself, in relation to other activities of the beneficiary and in relation to what is usual / common in the outside world

In order to check plausibility of staff costs claimed in the financial report, controllers could, for EXAMPLE:

- Interview the project accountant;
- Inspect time sheets: check if time sheets sum up to the hours claimed and whether they exceed realistic daily working hours;
- Inspect internal time recording systems. Often controllers get project time sheets, which list only the hours that occurred for the project. Some beneficiaries have internal time recording systems for the complete working hours of their employees. One plausibility check would be to obtain a copy or print-out of this internal time recording system and assess, whether the total working hours are reasonable (e.g. do not contain too many over hours) and whether project time sheets and internal time records can be reconciled (e.g. check if employee was present at work during working hours claimed and worked on the project);
- Inspect pay slips: check if they contain ineligible expenditure (e.g. ineligible bonuses);
- Compare salaries with what is typical in the sector, taking the job description, the position, the work experience etc. into account. Comparisons are sometimes done with average salaries and sometimes with maximum salaries in the sector;
- Inspect bank accounts: check payment of salary and social security contributions;
- Assess the plausibility of the calculation method for the hourly rates. E.g. controllers verify whether the hourly rates, if applied to all projects of an employee, would result in declaring more than 100 % of staff costs;
- Compare total staff costs and reported working hours with the project budget and the reported project activities;
- Others

### How can the checks be documented?

In cases where checklists ask for checks of plausibility (e.g. 'staff costs are reasonable'), including a comment (i.e. 'yes') or ticking the foreseen box in the checklist can be sufficient to document that the check of plausibility was done.

For checks requiring substantial professional judgement (whether or not included in the checklist), it can be useful to prepare a memo (see also [Section 7](#) - Documenting FLC checks - for more information on memos). In case the check involved specific documents, it is also useful to include these documents in the working papers.

In case sampling was involved, this should be documented as well.

### Experiences

- *Basically any check if an expenditure was economically justified is a plausibility check. On-the-spot we usually check what people work on in order to get an idea about the plausibility of declared staff costs. For this, we visit the offices and we do interviews with the employees. We also check if claimed project hours and the project outputs are in a plausible relationship. However, this is sometimes difficult to assess for controllers, as not all the required expertise*

is available (e.g. we had a project related to photonics) (Joseph Degiron - FLC expert INTERREG IVA Upper-Rhine). [Link to plausibility checks, staff costs, interviews, role of FLC, control of quality, on-the-spot checks](#)

- Sometimes it is not easy for controllers to come up with a conclusion, especially if subject matters need to be assessed that are outside the qualifications of controllers (e.g. technical or scientific issues). Controllers can only judge based on their general knowledge - and nothing more should be required from them. In case of serious doubt, controllers could also involve external experts (Susanne Volz - audit expert). [Link to plausibility check, role of FLC](#)
- Considering the work load of controllers, the extent of checks for plausibility should be carefully considered. If in line with national and programme provisions and practices, it could be useful to select a sample of items for which plausibility is checked. For instance, specific aspects of plausibility of staff costs could be checked for a sample of employees instead of all (e.g. plausibility of time sheets for a sample of time sheets; plausibility of hours worked on the project in relation to other assignments for a sample of staff members, etc.). Sampling always needs to be well documented. If errors are detected, controllers need to check the complete set of documents in order to determine the amount of misstatement (Susanne Volz - audit expert). [Link to plausibility check, staff costs, documentation, errors and financial corrections, work programme, risk-based approach](#)
- We require beneficiaries to provide us with the complete documentation of public procurement. However, for project partners that are not obliged to follow all public procurement rules, we ask them to demonstrate to us that they research the market or to provide documentation that the price for the service or good is an economic price (Roberto Piccini - FLC expert, Friuli Venezia Giulia, Italy). [Link to plausibility checks, inspection, public procurement](#)
- We check the plausibility of expenditures for office rent. Rents, which are very expensive by local standards are not eligible (Ingrid Real - FLC expert, City of Vienna, Austria). [Link to plausibility checks, overhead costs](#)

### Controlling shared costs<sup>10</sup>

- In many cases the methodology how to divide the shared costs among the project partners is established already in the Partnership Agreement signed between the Lead Partner and the project partners. That is why it is so crucial to contact the first level controller before the Partnership Agreement is signed, to confirm that the key to split costs among the partners is fair and justified (Katarzyna Suda-Puchacz - FLC expert, Poland). [Link to plausibility checks, inspection, shared costs](#)
- The proper audit trail is crucial also in case of shared costs. The implementing partner should provide the paying partners not only with the shared costs certificate but also with the control report and the checklist relating to these costs. The paying partner and his controller should have certainty that all the respective rules and requirements were fulfilled (Katarzyna Suda-Puchacz - FLC expert, Poland) [Link to plausibility check, inspection, shared costs](#)

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<sup>10</sup> 'Shared costs' are costs shared among partners of a project. Sometimes they are also called 'common costs' as these costs are common to all partners. Examples can include costs for a common webpage or external expertise for project management, which are shared by all partners. They are not to be confused with 'cost shares' (i.e. cost incurred by a beneficiary are only partially allocated to a project).

### Controlling cost shares<sup>11</sup>

- *There is no common methodology for the calculation of cost shares applicable to all programmes or projects. Controllers decide on the requirements on a case-by-case basis (Susanne Volz - audit expert). [Link to plausibility check, cost shares](#)*
- *We check the calculation of cost shares taking into account all the factors involved (surface, number of hours worked, number of persons involved). We also make sure that the method chosen does not change during the project implementation (FLC experts - Romania). [Link to Link to plausibility check, inspection; re-calculation, reconciliation, cost shares](#)*
- *As overhead costs lead to frequent errors in the past, plausibility checks can be very helpful, especially on-the-spot. E.g. it can be useful to add all declared overhead costs for all projects of a beneficiary, including projects funded by other sources. If in total more than 100% of overhead costs were declared, then it is not plausible (Susanne Volz - audit expert). [Link to plausibility checks, cost shares, overhead costs, double declaration of costs, on-the-spot checks](#)*
- *If costs for management staff or supporting staff are included in the overheads, we do not check if these people actually worked on the project. We consider them part of the overhead of the organisation and as such the costs are eligible on the basis of the previous acceptance of the calculation method (the key for calculation of the percentage) for overheads (Roberto Piccini - FLC expert, Regione Friuli-Venezia-Giulia, Italy). [Link to plausibility checks, cost shares, overhead costs](#)*

### Controlling the quality of project activities, outputs and results

- *Checking the quality of project activities and outputs is a plausibility check based on professional judgement. However, first level control is NOT a project evaluation and it should not be confused with an evaluation (Susanne Volz - audit expert). [Link to plausibility check, controlling quality, role of FLC](#)*
- *Checking project indicators, outputs and results is part of our FLC checks. It is, however, not clear what exactly is expected of controllers in this regard. Controllers are not evaluation experts - what are the limits to the role of FLC in the control of content? (Christa Bradler - FLC expert, Styria, Austria). [Link to plausibility check, controlling quality, role of FLC](#)*
- *During the monitoring of a project, the JTS also checks the quality and the quantity of the outputs not only for checking the existence of the project, but also for the verification of its 'value for money'. There is an awareness of the risk of supporting projects working well financially but with low quality results (Luca Ferrarese - finance manager JTS Central Europe Programme) [Link to plausibility check, controlling quality](#)*
- *We strongly agree with the fact that the first level control is NOT a project evaluation and it should not be confused with an evaluation. There is a limitation or even an impossibility for the controller to assess the results (outputs) of a project, mostly with regard to specialised studies (environmental studies, feasibility studies, training curricula) prepared by specialists*

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<sup>11</sup> 'Cost shares' relate to cases in which costs incurred by a beneficiary are only partly allocated to the project. Examples for 'cost shares' are overhead costs, staff costs only partially allocated to the project (e.g. in case of staff members working part-time on the project), an invoice distributed among several cost centres and depreciation of equipment only partly used for the project. They are not to be confused with 'shared costs' (i.e. costs shared among partners of a project).

*and university professors. These studies can be slightly changed and sold in several projects (FLC experts - Romania). [Link to plausibility check, controlling quality, role of FLC](#)*

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## 4.4. Check of existence and reality



The objective of checks of existence and reality is exactly this: **checking if the beneficiary, the project, the product or service or a situation as described in project reports, project documents or oral explanations exist in reality.**

Existence and reality checks are substantive procedures that address fundamental eligibility requirements. They are often straightforward, with a clear control objective and clear outcome.

Checks of existence and reality can also help to gain a better understanding of the project as well as the organisation and its environment and to identify potential risks.

They are mostly used on-the-spot although administrative verifications often also include checks for existence and reality such as the existence of written outputs generated (e.g. studies and other publications).

### What do controllers check in terms of existence and reality?

The EC guidance note on management verifications highlights the importance of checks of existence and reality during on-the-spot checks: *'Where operations are intangible in nature and where little or no physical evidence remains after their completion (e.g. ESF operations: training courses, employment schemes), when on-the-spot verifications are carried out, they should be undertaken during the implementation (i.e. before completion). These on-the-spot verifications are crucial in order to check the reality of such operations.'*

Depending on the programme and FLC systems but also on the beneficiary, the project and the controller's own risk considerations, potentially useful checks of existence and reality can include:

- The beneficiary, including its office, project-related staff, organisational structure and its legal and contractual environment (e.g. subsidiary institutions or companies, service providers);
- The project organisation, including the partnership and organisational structure and the role of the beneficiary in the project, etc.;
- The project's financial reporting processes, including originals of documents, its audit trail and proper archiving of documents, etc.;
- Purchased goods and investments such as computers, analytical tools, publicity materials, demonstration pilots, etc.;
- Purchased services;
- Written outputs such as studies, compendiums, manuals; and
- Project activities, including trainings, seminars, conferences, stakeholder networks,

informational events, press conferences, etc;

- Others

### How do controllers check existence and reality?

The EC guidance note points out that on-the-spot visits can be carried out with or without prior notice: *‘On-the-spot verifications should be planned in advance to ensure that they are effective. Generally, notification of the on-the-spot verifications should be given in order to ensure that the relevant staff (e.g. project manager, engineer, accounting staff) and documentation (in particular, financial records including bank statements and invoices) are made available by the beneficiary during the verification. However, in some cases, where the reality of the project may be impossible to determine after the project has been completed, it may be appropriate to carry out on-the-spot verifications during implementation and without prior notice (e.g. ESF funded training courses, where timesheets for participants and teaching staff should also be verified).’*

Checks of existence and reality always aim at comparing a written or oral statement (a ‘plan’) to the actual reality. For this reason, controllers usually establish the ‘plan’ first, before they compare it to the actual situation. The ‘plan’ may include obtaining and inspecting an inventory list of purchased goods or other documents that describe the planned situation (e.g. project applications) or obtaining an understanding of an internal process by doing an interview.

In the next step, controllers assess whether or not the planned activities/services/outputs etc. exist in reality by, e.g. inspecting documents, observing an event, etc.

The box below provides an EXAMPLE of a check of existence and reality in chronological order.

**EXAMPLE** - chronological order of checks of existence and reality of a demonstration pilot:

- 1) Identify issue to be checked (e.g. existence of a demonstration pilot);
- 2) Establish the ‘planned situation’ (e.g. by obtaining a list of purchased goods, description of the demonstration pilot, etc.) and potentially other relevant documents from the beneficiary;
- 3) Perform on-the-spot check, if necessary seek external confirmations;
- 4) Assess results and conclude whether the pilot exists in reality;
- 5) If problems or errors are detected: determine the misstated amount (seek external confirmation if necessary);
- 6) Document results

### How can the checks be documented?

Controllers often use checklists/control reports and lists of items (e.g. list of purchased goods), in order to document whether the checked item/issue exists in reality.

Controllers also often document existence and reality by including evidence in the working papers such as:

- Evidence of the project sites, like plans of the project office, photos of the project office;
- Project outputs like studies, manuals and brochures;
- Other evidence of project activities like training materials, attendance lists of meetings and workshops, press releases, photos of project events;
- Evidence of goods purchased by beneficiaries such as a list of purchased goods that are present on the spot. Some controllers even take their own photos;
- Evidence of services purchased by the beneficiary such as outputs produced by external service providers;
- Others

For more extensive checks for existence and reality (e.g. checking the legal and contractual environment of the beneficiary) or in cases where severe issues are found (e.g. no evidence of the project, fake evidence, double funding, etc.) it can become necessary to draft a memo on the situation (see also [Section 7 - Documenting FLC checks](#) - for more information on memos).

### Experiences

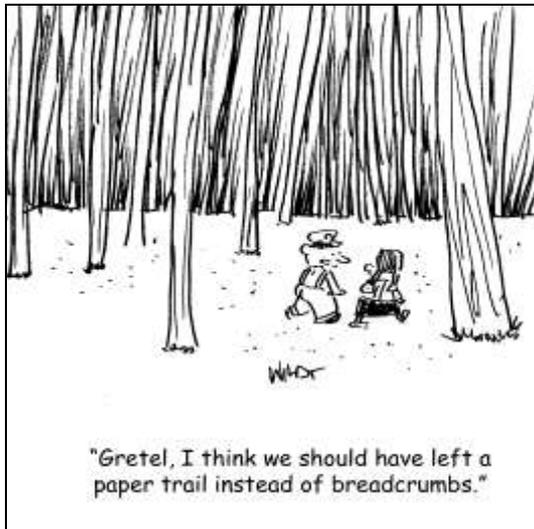
- *No list of issues to be checked in terms of existence and reality is ever complete! It is not useful to solely rely on checklists and it is necessary to decide on a case-by-case basis, if additional checks are necessary. Similarly, very long lists of issues to be checked are not useful either as they may waste valuable time on-the-spot. It can be sensible to do checks for existence and reality at least for a minimum set of issues for each beneficiary on-the-spot. The extent and nature of additional checks could then depend on the project, the beneficiary and the risks identified (e.g. during the administrative verification and/or the opening interview) (Susanne Volz - audit expert). [Link to check of existence and reality, checklists, work programme, risk-based approach, on-the-spot checks](#)*
- *Many controllers already prepare during the administrative verification a list of purchased goods and services or other physical manifestations of the project that they intend to inspect on-the-spot. On-the-spot they make inspections according to the list of purchased goods and services (INTERACT). [Link to checks of existence and reality, documentation, observations, administrative verifications, on-the-spot checks](#)*
- *Checks of existence and reality should also cover the location and usage of purchased goods and investments: are they located in the project office and used solely for the project (or in accordance with the reported share)? E.g. the laptop exists but is it used by staff working on the project? (INTERACT). [Link to checks of existence and reality](#)*
- *One of the most tricky issues on-the-spot are constructions not progressing according to plan. Projects have a real problem, if a construction site (e.g. a building) cannot be finished during the project period. Sometimes, material has been purchased, but not used so far. In these cases we check whether the material is available for the project, or if it has been used for*

*something else or by someone else (Thomas Grass - FLC expert, Burgenland, Austria). [Link to checks of existence and reality, controlling quality, investments, on-the-spot checks](#)*

- *Our checks of existence and reality start at the front door of the beneficiary's office! It can be very useful to read the door signs and obtain a better understanding of the beneficiary's environment (Ingrid Real - FLC expert, City of Vienna, Austria). [Link to checks of existence and reality, on-the-spot checks](#)*
- *On-the-spot we usually check whether or not costs related to the project can be identified in beneficiaries accounting systems (Marta Gordos - FLC expert, Hungary). [Link to checks of existence and reality, accounting system, on-the-spot checks](#)*
- *Usually, the earlier you obtain an understanding of existence and reality, the better you can identify potential error sources and avoid future errors. However, some checks for existence and reality, such as the actual existence of investments or services, will only be possible once the project is more advanced (JTS - INTERREG IVC programme). [Link to checks of existence and reality, investments, on-the-spot checks](#)*
- *It is standard procedure to check the results of the project on-the-spot. We check whether the project really exists, we take photos and obtain evidence of the project. On-the-spot checks are realised on a sampling basis using a risk analysis (Eva Hrstkova - FLC expert, Czech Republic). [Link to checks of existence and reality, investments, documentation, on-the-spot checks](#)*
- *In addition to investments as foreseen by the project budget, overhead costs get our special attention on-the-spot. We check for example whether the offices are used as indicated in the overhead cost calculation scheme, or that office material is used for the project (Joseph Degiron - FLC expert, INTERREG IVA Upper-Rhine). [Link to checks of existence and reality, plausibility check, overhead costs, on-the-spot checks](#)*
- *In our programme, we require FLC to verify that expenditure claimed is related to the project and that deliverables are in accordance with the approved application form in terms of quantity as well as quality. This involves also FLC on-the-spot checks of existence and reality of project outputs. We expect controllers also to document that their checks considered both project finance and activities (Luca Ferrarese - finance manager Central Europe programme). [Link to checks of existence and reality, plausibility checks, controlling quality, documentation, on-the-spot checks](#)*

## 5. Sub-procedures

### 5.1. Inspection of documents and records



In basic terms, inspection is the reading and understanding of any relevant document, electronic record or print out of an electronic record.

Inspections are used widely by controllers in both administrative and on-the-spot checks. They provide basic information about the project and the beneficiary as well as the beneficiary's environment. Often, they are an essential part of substantive control procedures such as checking completeness, plausibility or compliance.

#### What do controllers inspect?

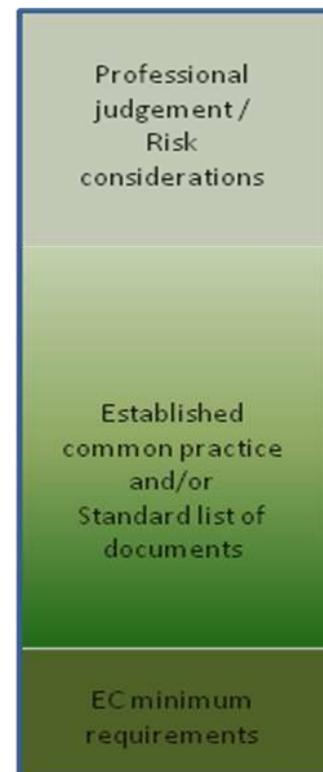
In our experience, territorial cooperation controllers take decisions on which documents to inspect (and which not to inspect) on the basis of:

- 1) Established common practices;
- 2) A standard list of required documents and records (if existing); and
- 3) Professional judgement and risk consideration.

The EC Guidance note on management verifications outlines minimum requirements for the types of documents that should be checked for each payment claim:

*'The supporting documentation should, at a minimum, include a schedule of the individual expenditure items, totalled and showing the expenditure amount, the references of the related invoices, the date of payment and the payment reference number. Ideally, copies of invoices and proof of payment should be provided for all expenditure items.'*

In territorial cooperation FLC systems, these minimum requirements are considered insufficient to ensure a proper audit trail. It is common practice to inspect a much wider set of documents, including relevant contracts, documentation of public



procurements, written project outputs such as studies and manuals, publicity material such as brochures and give-aways, travel documents, calculation schemes (e.g. for the calculation of overheads), documentation of project meetings and events and others.

Standard lists outline a minimum set of documents and records and thus provide certainty that some key documents are covered. However, although some standard lists are quite comprehensive, no list can ever be complete and cover all potential cases. Therefore, controllers decide on a case-by-case basis whether or not certain documents should be inspected in addition to standard requirements.

### How can the inspections be documented?

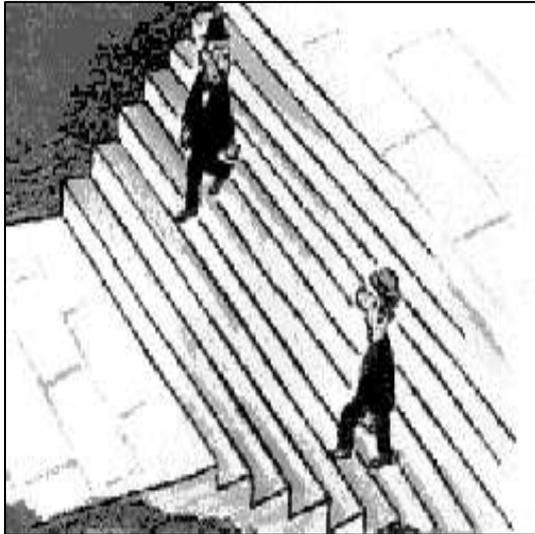
Checklists usually require information that cannot be obtained without inspection of the relevant documents and records. E.g. checking whether 'all expenditures are directly related to the project and necessary for the development of the project' requires inspection of invoices, application form, subsidy contract, etc. For the purpose of documenting WHICH documents were inspected, the following can be useful:

- Obtaining copies of overviews or lists (e.g. standard list of required documents) and putting defined tick-marks for each supporting document that has been inspected;
- Obtaining copies of documents and other records and including them in the FLC working papers. NOTE: It is usually not necessary to make copies of all documents! For an example of how the documents can be organised and indexed in the FLC working paper, please refer to [Section 7 - Documenting FLC checks](#);
- Making handwritten notes on copies of documents and records that have been included in the FLC working papers;
- In case the FLC system should allow for sampling (e.g. of a subset of invoices), the sampling method should be documented as well.

### Experiences

- *Although the basic method is simple (controllers select the document or electronic record and read it in order to obtain an understanding of the content), inspections can easily become quite demanding and time consuming. Some inspections can also require specific (technical) expertise that may not be readily available (Ingrid Real - FLC expert City of Vienna, Austria). [Link to inspection, work programme](#)*
- *First level controllers should allow themselves to check issues not included in the checklist. The checklist is nevertheless very important to make sure that nothing is forgotten (Joseph Degiron - FLC expert INTERREG IVA Upper-Rhine). [Link to inspection, checklists](#)*
- *It is very useful to inform beneficiaries in advance about the documents that should be prepared for inspection (e.g. together with the announcement letter of the on-the-spot check). This helps save time on-the-spot! (Maria Poulaki - FLC expert Greece) [link to inspection, work programme, on-the-spot checks](#)*

## 5.2. Reconciliation



A reconciliation is a basic check whether or not a figure included in one document is identical with the same figure included in another document (e.g. staff costs in the financial report are identical to the sum included in the staff cost overview).

Reconciliations are done in order to verify if the amounts reported are correct and can be traced to supporting documentation. Usually, when reconciling figures, controllers do not stop at this step but continue their checks by re-calculating (e.g. the overview sheets in order to check the correctness of the summary figure). Re-calculations are explained below in the next section.

Often, reconciliations are an essential part of substantive control procedures such as checking completeness or plausibility. Reconciliations are also essential checks of the audit trail. If figures cannot be reconciled, controllers either reject the figure or require the beneficiary to present a clarification.

### What do controllers reconcile?

In principle, each figure included in the financial report should be substantiated with supporting documents. Therefore, controllers usually reconcile all these figures with the relevant supporting documentation.

EXAMPLES of reconciliations include:

- Reconciling the project financial report with invoices and other supporting documents;
- Reconciling the project financial report with the expenditure list, the bank account statement and the beneficiary's accounting system;
- Reconciling staff costs with time sheets, hourly rates, pay slips, etc.;
- Reconciling overheads with overhead cost calculations and lists of overhead costs;
- Reconciling depreciation allocated to the project with the beneficiary's depreciation calculation of the item in question;
- Reconciling the amounts declared as in-kind contributions (incl. unpaid voluntary work) with supporting documents (timesheets of unpaid experts, etc.);
- Reconciling other cost shares (e.g. costs of machine hours or laboratory hours) with supporting documents and the beneficiary's calculation;
- Others

Some reconciliations such as the reconciliation of the project financial report with the list of expenditure and the project bank account statement are usually done during administrative verifications for each payment claim. Other reconciliations, such as the reconciliation of declared costs with the beneficiary's accounting system can be performed during administrative verifications (based on a print-out of the accounting system) and/or on-the-spot.

### How can reconciliations be documented?

Some checklists include questions related to reconciliations, like 'do expenditure lists and financial report match'? Controllers can then document in the checklist which checks were done and what was the result.

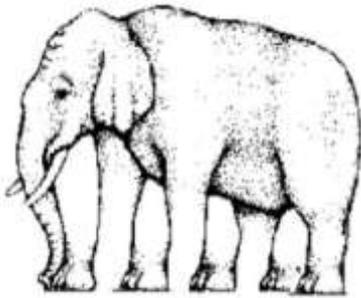
A common way to document reconciliations is by putting defined tick-marks on the reconciled documents next to the reconciled figure.

In case of complicated reconciliations, controllers may decide to include a memo in the working papers and supporting documentation, e.g. print-outs of overviews or calculation schemes and copies of supporting documentation.

### Experiences

- *Reconciling the amounts of the financial report with the expenditure list and the cost accounting is standard control procedure for controllers and in my experience usually does not result in errors. However, this does not mean that this check is irrelevant. In one case I could not reconcile the declared expenditure with the accounting system. This particular accounting system generated the expenditure lists automatically, but unfortunately not correctly, which meant that a big part of the declared expenditure was ineligible (Susanne Volz - audit expert). [Link to reconciliation](#)*
- *As it is the case for all control procedures, reconciliations on-the-spot should not merely repeat what was already done administratively unless your aim is to control the quality of previous checks. On-the-spot it is possible to complement previous administrative checks by additional cross-checks such as reconciliations with the accounting systems or documents not available for the administrative check (Susanne Volz - audit expert). [link to reconciliation, audit trail, work programme, on-the-spot checks](#)*

### 5.3. Re-calculation



*How many legs do you count?*

Re-calculations typically aim at verifying that a figure was calculated correctly.

In essence, a re-calculation is a re-performance of a calculation, which was executed by the beneficiary in order to calculate eligible expenditure for a specific cost item (e.g. overheads, staff costs for individual employees, etc.).

Like reconciliations, re-calculations are essential checks of the audit trail and can be part of many substantive procedures such as check of plausibility or completeness. If figures cannot be re-calculated, controllers either reject the figure or require the beneficiary to present a clarification. Re-calculation

often takes place as a second logical step after reconciliation.

#### What do controllers re-calculate?

A very simple example of a re-calculation applied to the list of expenditure is the addition of the single cost positions to verify whether or not the sum was calculated correctly. For more complex re-calculations (e.g. allocation of overhead costs to the project), controllers often need to obtain the calculation scheme used by the beneficiary.

EXAMPLES of re-calculations include:

- Re-calculation of the sum of items included in the list of expenditure;
- Re-calculation of staff costs (hourly rates, sums in time sheets, etc.);
- Re-calculation of overhead costs (allocation to the project, sums in lists of overhead costs, etc.);
- Re-calculation of figures produced by accounting such as cost positions allocated to the project by the accounting system;
- Re-calculation of depreciation allocated to the project;
- Re-calculation of revenues generated;
- Others

### How can re-calculations be documented?

Some checklists include questions related to re-calculation, like ‘are staff costs calculated correctly?’. Controllers can then document in the checklist which checks were done and what was the result.

A common way to document re-calculations is by putting defined tick-marks on the re-calculated documents next to the re-calculated figure.

In case of complicated re-calculations, controllers may decide to include a memo in the working papers and supporting documentation, e.g. print-outs of overviews or calculation schemes and copies of supporting documentation.

### Experiences

- *Unprepared beneficiaries sometimes have problems providing controllers with calculation schemes. Instead, they try to explain how the cost split was done (e.g. for staff costs) and provide supporting documentation. Essentially they leave it up to the controller to come up with the calculated figure. In these cases, controllers can point out that it is the responsibility of the beneficiary to provide a traceable calculation method for any cost allocated to the project. Calculation schemes are an important element of the audit trail, which must be provided by the beneficiary (Susanne Volz - audit expert). [Link to re-calculation, staff costs, role of FLC, audit trail](#)*
- *For the calculation of staff costs, we provide the beneficiary with a ‘personnel costs calculation sheet’ in Excel format. The beneficiary has to submit the filled-in sheet together with all other documents for each reporting period. The sheet requires the beneficiary to enter data from the annual payroll(s) as well as the actual annual working hours for each staff member working on the project. The sheet automatically calculates the correct hourly rate(s). We check the data entered and the correct use of the hourly rate in the calculation of actual staff costs (Thomas Grass - FLC expert, Burgenland, Austria). [Link to re-calculation, staff costs](#)*
- *We check the formula for calculation of staff costs using an excel document issued by us, which contains the correct calculation method for hourly rates (FLC experts - Romania). [Link to re-calculation, staff costs](#)*

## 5.4. Inquiry and interviews



Inquiries are documented discussions with beneficiaries. They can be rather short and relate to a specific open question or quite extensive, e.g. in order to obtain a good understanding of accounting processes, procurement, transfer of funds to partners, etc. **Extensive inquiries are often called interviews.**

Inquiries and interviews are most commonly used during on-the-spot checks but can also form part of administrative verifications, for instance in cases where beneficiaries are invited to the premises of the controller to discuss the project or in cases where the administrative check is done at the premises of the beneficiaries.

### What do controllers inquire about?

Controllers can inquire about any subject they consider relevant to FLC. Inquiries and interviews are by their nature of quite universal use and standardisation of the approach or questions to ask is difficult.

During an on-the-spot check, conducting a **general opening interview** and a **closing interview** can be very useful in order to obtain general information and to gain a better understanding of the project, the beneficiary and its environment.

Additional **specific interviews** for obtaining information on specific (e.g. high-risk) issues or transactions can be useful as well. For instance, controllers may need information on a specific document, calculation scheme or specific process (e.g. a specific public procurement) and discuss these issues with the person in charge.

### How are inquiries and interviews conducted?

Although inquiries and interviews sometimes directly lead to the detection of an error (e.g. you may detect during an interview that the rules for in-house contracting have not been respected), they are often not sufficient in itself and need to be complemented by further control procedures. *E.g.* controllers **first** use interviews with responsible persons within the beneficiary's organisation to better understand the project, the organisation and its environment, and to obtain missing information. Controllers **then** continue to verify whether the information obtained is true, by applying other control procedures such as inspection of documents, re-calculation, etc.

### EXAMPLE: Opening Interview

The opening interview is usually kept quite general and conducted, for example, with the organisation's head or the project manager. Opening interviews are an opportunity to ask all questions necessary to learn whatever is relevant to the on-the-spot check. An opening interview can be used to:

- Obtain an **understanding of the project** and the project set-up, its processes and progress (e.g. structure of the partnership; financial reporting between lead partner and beneficiaries, supervision and coordination by lead partner, transfer of funds to partners; delays/problems experienced, etc.);
- Obtain an **understanding of the organisation** (e.g. legal status, organisational setup, size, etc..) and its internal structure and staff (number, hierarchies, qualification of key personnel, competences and decision making powers, etc.); the most important internal processes and controls and the responsible persons (e.g. accounting process, procurement);
- Obtain an **understanding of the organisation's environment** (e.g. geographical specifics; industry or sector of activity such as research, municipal services etc.), its legal and organisational relations to other entities (e.g. service-level agreements or framework contracts with specific suppliers, rent of offices or project buildings, outsourced or leased personnel, subsidiary companies, funding sources, including other projects co-financed by EU or national sources, etc.);
- Obtain an understanding of **further risks** that were not identified so far; discuss already identified risks and validate or amend them;
- Any other issue

### How can inquiries and interviews be documented?

Controllers can, e.g. prepare a memo of an inquiry or interview and include it in the working paper. For an example memo of an interview on staff costs, please refer to [Section 7](#) - Documenting FLC checks.

In cases where someone explained a specific document, including this document in the working papers and putting a short handwritten note indicating the person asked and the information obtained on the document could be sufficient.

### Experiences

- *We usually start our on-the-spot visit with an interview on how the project works (Milan Krajco - FLC expert, Slovakia). [Link to interview, on-the-spot checks](#)*
- *We find that interviews with responsible personnel are sometimes necessary to answer some of the questions on our checklist (Marta Gordos - FLC expert, Hungary). [Link to interview](#)*
- *During on-the-spot checks, we do opening and closing meetings. In addition, we like to have someone, who is familiar with the project at our disposal so that we can verify open issues and questions directly and immediately. Furthermore, we do interviews with the project personnel in order to get to know their work (Joseph Degiron - FLC expert, INTERREG IVA Upper-Rhine). [Link to interview, on-the-spot checks](#)*

- *Planning sufficient time and resources for comprehensive interviews during the opening meetings of each on-the-spot check can help save time and resources later as interviews allow for a more targeted approach later-on (Susanne Volz - audit expert). [Link to interview, work programme, on-the-spot checks](#)*
- *In cases where on-the-spot checks are scheduled at a later time, inviting beneficiaries to our premises to discuss documents submitted for FLC administrative verification is often useful (Ingrid Real - FLC expert, City of Vienna, Austria). [Link to interviews, work programme administrative verification, on-the-spot checks](#)*
- *In our institution most of the time project managers directly bring the documents for checking to the office of the FLC (instead of sending them). We find it helpful to conduct a short unstructured interview in this meeting to get some general information on how the project is progressing and whether there were any problems in the last few months. Therefore, even before we start to look at reports or documents in detail, we already have some insight into the current state of the project (Christa Bradler- FLC expert, Styria, Austria). [Link to interview, administrative verifications](#)*
- *In order to do efficient and focused interviews, a list of questions prepared in advance can be helpful. This list could have been prepared as a result of preceding controls and audits (e.g. administrative verification or second level control) and could address specific risks identified. Standard lists of interview questions are sometimes available. These lists, however, should not be too detailed and should leave room for additional questions specific to the project and the beneficiary and the risks identified. It can also be helpful to identify and contact the persons to interview in advance in order to ensure that they are present during the on-the-spot check (Susanne Volz - audit expert). [Link to interviews, work programme, risk-based approach, administrative verifications, on-the-spot checks](#)*

## 5.5. Observation of events and processes



Observations involve watching people while they execute project-related activities such as an event or an internal process. Observations can thus be conducted in the office of the beneficiary or at any other site of project activities.

Observations are usually straightforward but can require some preparation. They are particularly useful if no 'hardcopy' output of a process or event exists. Often, they are part of a check of existence and reality.

### What do controllers observe?

Controllers can take decisions on what to observe on the basis of knowledge obtained (e.g. during the administrative check or an opening interview) and own risk considerations (e.g. related to the type of project such as projects with many training events). Of course, all observations included in checklists must be undertaken in any case.

EXAMPLES of observations include:

- Observation of a project event (seminar, conference, meeting, training, etc.) can be an important part of the audit trail;
- Observation of a process (e.g. observing the execution of a payment, staff accounting) can be an effective method to detect potential error sources and to learn how the process is performed by the beneficiary.

Controllers may or may not announce observations in advance as pointed out by the EC guidance note on management verifications: '*... in some cases, where the reality of the project may be impossible to determine after the project has been completed, it may be appropriate to carry out on-the-spot verifications during implementation and without prior notice (e.g. ESF funded training courses, where timesheets for participants and teaching staff should also be verified)*'.

### How can observations be documented?

Observations can, for instance, be documented in a memo describing the event or process that was observed, or by amending a checklist.

It can be useful to include copies of the outputs or other evidence of the observed event or process in the working papers and cross-reference them to the checklist or the memo. In case of material deviation, a description of the deviation can be included in the memo, as well as considerations regarding the potential effect (i.e. on the overall assessment of risks, on the amount of

misstatement).

## Experiences

- *An observation alone is usually not sufficient in itself and a combination with other control procedures is often necessary (e.g. to conduct a check of existence and reality). For instance, it is not per se possible to conclude that an event or process observed has been executed in the same way during the past. It is therefore recommended to consider control procedures in addition to the observation, such as inquiries/interviews about the execution of the process in the past and inspection of documentation of earlier actions. Such additional checks should be planned in advance (i.e. prior to undertaking an observation) (Susanne Volz - audit expert). [Link to observation, interviews, work programme](#)*
- *In cases where dates of project events are not made publicly available or are not indicated in project documentation, controllers can ask the beneficiary for a list of planned meetings, events, seminars etc. and respective dates and venues (INTERACT). [Link to observation, work programme](#),*
- *In the Czech Republic, project partners must inform the FLC unit that they intend to tender a service or goods. FLC can then decide to participate in the evaluation meeting of the tendering procedure, which is an observation. Alternatively, FLC can obtain a copy of the tender dossier and can check compliance with procurement rules on the basis of this tender dossier. Both control procedures are performed during the implementation period of the project and therefore are pro-active checks in addition to standard administrative or on-the-spot checks (Eva Hrstkova - FLC expert, Czech Republic). [Link to observation, compliance check, public procurement, on-the-spot checks](#)*

## 5.6. Walk-Through



In very general terms, a walk-through is a control procedure in which controllers trace a specific process or transaction of the beneficiary step by step (e.g. one public procurement).

Walk-throughs can be useful in order to gain a better understanding of the beneficiary, the beneficiary's processes and internal controls and potential error sources/risks.

As part of a walk-through, controllers can also obtain and inspect relevant documents and records generated by the beneficiary in sequential order (e.g. from the initiation of the procurement to the conclusion of the contract).

### What do controllers 'walk through'?

In ETC and IPA-CBC first level control, there is no common understanding of walk-throughs and how they are applied and when. The term 'walk-through' is used in different ways throughout the FLC community and thus potentially refers to quite different procedures. An example of a very basic form of a walk-through is provided below.

Walk-throughs can be very time consuming and controllers make professional judgements about whether or not to use walk-throughs and to which extent. One option is to perform a walk-through of the most risky transactions only (e.g. a major public procurement). Another option is to walk-through one incident of each cost category (e.g. staff costs of one employee, overheads of one reporting period) or simply to trace one invoice through the beneficiary's cost accounting system.

Some EXAMPLES of potentially useful walk-throughs are:

- Tracing one or more public procurement processes from the selection of the procurement procedure to the conclusion of the contract;
- Tracing one or more salary payments from the completion of time sheets to the payment to the employees' account;
- Tracing one or more invoices through the beneficiary's (accounting) system from the receipt of the invoice to the inclusion of the amount into the project's financial report;
- Tracing travel cost accounting from the handing-in of travel cost items by the employee to reimbursement;
- Tracing depreciation from the calculation of the depreciation cost share of the project to the inclusion in the separate project accounting;
- Others

EXAMPLES of errors that could be detected through walk-throughs (although previously undetected during administrative verification) include:

- Inclusion of hidden benefit payments in staff costs;
- Double counting of staff hours (e.g. for other projects);
- Double declaration of depreciation or overheads;
- Double declaration of invoices (e.g. an electronic invoice allocated to several projects);
- Missing documents and incomplete documentation (e.g. public procurement);
- Gaps in the audit trail;
- Others

### How do controllers conduct a walk-through?

As pointed out above, in territorial cooperation first level control, there is no common understanding of walk-throughs. An example of a very basic walk-through for public procurement is

A **very basic form of a walk-through** on 'public procurement' could involve:

- 1) Conduct a specific interview on public procurement (e.g. how do you usually perform public procurements?) and inspect related documents (e.g. internal manual on public procurement - if existing).
- 2) Select one incident (i.e. one public procurement) as sample case and walk through this incident in chronological order together with the beneficiary. Obtain all documents and records related to this incident (e.g. procurement memo, requests for offers, offers, selection report, contract etc.).
- 3) Inspect all documents of the sample case in chronological order with the purpose of checking whether this process was executed as described in the interview. Re-perform all the steps of the process.
- 4) Document the walk-through (e.g. in a memo).
- 5) If material deviations from the process descriptions are found and/or the re-performance produced material deviating results, you can discuss these issues with the beneficiary. Where applicable define an error and determine its financial effect.

provided below:

### How can walk-throughs be documented?

As walk-throughs are a comparison between a planned process and an example of an actual process, documentation is most transparent if it takes this fact into account. As a first step, controllers can document the planned process by documenting the interview in a memo. The memo should clearly describe the single steps of the process and their output(s). Examples of these outputs are usually

obtained during the interview. They should be included in the working papers and cross-referenced to the memo.

As a second step, controllers select a sample (or several samples) of the process. This sample should be documented in the memo as well.

As a third step, controllers can document the results of the walk-through(s) in the memo. The more clearly the planned process was described in the beginning (i.e. all the steps in chronological order, indicating the responsible persons and the output of each step) the more efficient and easy the documentation of the walk-through is, i.e. it can be reduced to a simple table.

An EXAMPLE documentation of a walk-through of a procurement process is provided below:

Information obtained with the interview (see step 1)		Documentation of the process steps that have been 'walked-through' (see step 3)		
Process Step	Output	Output available?	Output correct?	x-ref
Planning of the goods/services required and decision on applicable procurement process	<ul style="list-style-type: none"> <li>Documentation of preparatory research and decisions in the procurement file (included in procurement memo)</li> </ul>	Yes	Yes	A-10
		Yes	Yes	A-10
Start of the Tendering procedure (description of services requested, selection criteria and selection of potential service providers)	<ul style="list-style-type: none"> <li>Description of services: Letters to potential service providers</li> <li>Selection criteria: included in the memo and the letters to the service providers</li> <li>Potential service providers: procurement memo and letters</li> <li>Selection criteria in procurement memo signed by supervisor</li> </ul>	Yes	Yes	A-20
		Yes	Yes	A-10
		Yes	Yes	A-20
		Yes	Yes	A-10
Launch of the official procedure (preparing and sending of the letters to the potential service providers)	<ul style="list-style-type: none"> <li>Letters to potential service providers</li> <li>Procurement memo documents this step as well</li> </ul>	Yes	Yes	A-10
		Yes	Yes	A-20
Receipt of the offers	<ul style="list-style-type: none"> <li>Archived offers in the procurement file</li> <li>Stamp of the mail department</li> </ul>	Yes	Yes	A-30
Evaluation of the offers	<ul style="list-style-type: none"> <li>Evaluation matrix in procurement memo</li> <li>Decision in procurement memo</li> </ul>	Yes	Yes	A-10
Control of the evaluation of the offers	<ul style="list-style-type: none"> <li>Evaluation matrix and decision in procurement memo signed by supervisor</li> </ul>	Yes	Yes	A-10
....	<ul style="list-style-type: none"> <li>....</li> </ul>	....	....	....

Sample 1: Procurement of a copy machine; x-ref: Cross-reference to documents

Another EXAMPLE documentation, this time of a walk-through of a payment process, is provided below:

Information obtained with the interview (see step 1)		Documentation of the process steps that have been 'walked-through' (see step 3)		
Process Step	Output	Output observed?	Output correct?	x-ref
Accountant approves payment	<ul style="list-style-type: none"> <li>Electronic signature in accounting system and on invoice</li> </ul>	Yes	Yes	A-15
		Yes	Yes	A-10
Accounting system generates payment mark	<ul style="list-style-type: none"> <li>Print-out of payment run.</li> <li>Invoices are marked 'paid' in accounting system</li> </ul>	Yes	Yes	A-20
		Yes	Yes	A-30
Bank executes payments	<ul style="list-style-type: none"> <li>Bank account statements</li> </ul>	Yes	Yes	A-40

**Sample 2: Invoice Miller, Inc.;** x-ref: Cross-reference to documents

It can be useful to include evidence of the outputs in the working papers and cross-reference them to the memo (right column - x-ref.). More information on cross-references is included in [Section 7 - Documenting FLC checks](#).

Documentation in the memo is completed with an assessment of the deviations found (if any) and a conclusion whether:

- The process is applied as planned (e.g. as described during the interview or as laid down in process manuals);
- The design of the process is principally able to produce the required results (e.g. execute payments correctly);
- The process is reliable (e.g. no incorrect payments to be expected).

### Experiences

- *For complicated processes, it can be confusing to conduct the interview on the process and the walk-through at the same time. It is sometimes easier to first carry out an interview and document the process with a memo, and only then walk through the process for a sample case. With such a two-step approach, it is easier to detect deviations and potential error sources (Susanne Volz - audit expert). [Link to walk-through, documentation, risk-based approach](#)*
- *In order to check the accounting system, we get an explanation of the system from responsible persons of the beneficiary's accounting department. We focus on the treatment of one invoice and follow the invoice through the complete accounting system, from the receipt of the invoice until payment. We document the walk-through by including print-outs of the accounting system in our working papers. Other processes are only checked through walk-throughs in case of doubt (Thomas Grass - FLC expert Burgenland, Austria). [Link to walk-through, documentation, risk-based approach, on-the-spot checks](#)*

- *Verification of cost centre accounting during on-the-spot check involves that we trace a sample invoice from receipt to payment. These issues are not written down in the FLC procedures manual because the accounting system of one beneficiary could be very different from the one of another beneficiary. However we include results in the FLC report (Roberto Piccini - FLC expert, Friuli Venezia Giulia, Italy). [Link to walk-through, documentation, risk-based approach, on-the-spot checks](#)*

DRAFT

## 6. Example workflow of an on-the-spot check

### What is this?

Workflow of on-the-spot verifications describe the steps / activities carried out in chronological order.

There is no common 'good practice' standard for workflows of on-the-spot checks. Among the numerous FLC systems and programmes and the wide range of control objectives that can potentially be addressed on-the-spot, it is likely that no workflow of one on-the-spot check is identical to another one. One example of a basic workflow for an on-the-spot check is provided below.

### What could be a basic workflow of on-the-spot verifications?

On-the-spot verifications provide a chance to get to know the project and its expenses in depth and therefore help detect errors that would otherwise have gone undetected. All procedures used in administrative verifications can be used on-the-spot as well. There are, however, some additional procedures, which are primarily used on-the-spot such as interviews and walk-throughs.

The example below divides an on-the-spot check into three phases, namely 1) opening and obtaining of information and overview, 2) substantive control checks and 3) closure and follow-up.

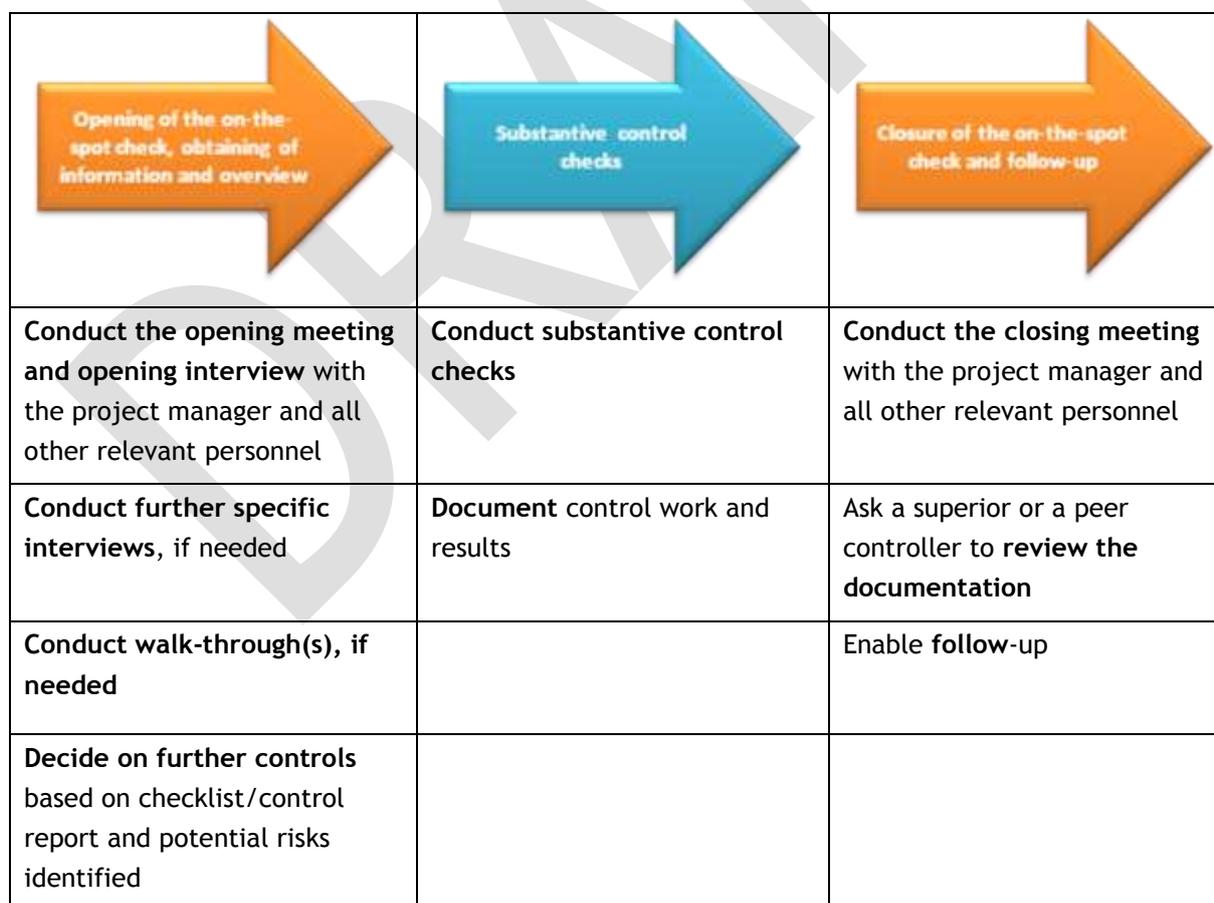


Figure 4: EXAMPLE of a basic workflow of an on-the-spot check

## What if?

### ...errors are detected during the on-the-spot check?

In this case, controllers define the actual size or extent of errors, if necessary by performing further administrative and/or on-the-spot controls.

### ...documents provided are not sufficient, e.g. no access is granted to general bank accounts due to confidentiality obligations or documents were destroyed during floods or fires?

Controllers may decide whether obtaining external confirmations from third parties is a way out (e.g. obtain a written confirmation by a service provider that a certain service was delivered to the beneficiary and paid by the beneficiary).

### ...relevant persons are not available, e.g. due to other obligations, holidays, illness, or maternity leave?

Controllers may decide to move the date of the on-the-spot verification to a date, when required personnel are available. If this is not possible, controllers might rely on replacement personnel and document any limitations (e.g. in case replacement personnel are not able to answer all questions).

### ... our FLC office has two employees and many, many projects to deal with? We cannot spend so much time on-the-spot on interviews and walk-throughs, etc.

Controllers might decide to still spend some time on obtaining information in the beginning of the on-the-spot check through interviews and walk-throughs. This often allows greater efficiency in the subsequent checks (e.g. focus more on high-risk areas and transactions) and eventually saves time.

## Experiences

- *We perform desk-based checks and on-the-spot checks. The project partners send the project documents (with the exception of public procurement documents- these are verified at the project partner's premises) in order to be verified by the controllers. If some documents are incorrect or missing, the controllers issue a clarification letter and after they receive a satisfactory answer, they perform the on-the-spot check (FLC experts - Romania). [Link to on-the-spot checks, public procurement, administrative verifications, work programme](#)*

## 7. Documenting FLC checks



First level control documentation is a hard copy or electronic record of (1) the various controls performed by a controller, (2) the results and relevant evidence obtained through these controls and (3) the conclusions reached and corrective measures taken.

Experience has shown that sometimes controllers performed excellent control work but failed to document the work done in a way that would enable later audits (e.g. carried by audit authority, EC audit service, etc.) to fully understand what has been done. For this reason, we include here a section on documentation of first level control work. As usual, not everything included in this section is applicable

to all countries or programmes. Further practices or different but equally suitable practices exist in various countries and programmes.

### What are the minimum requirements for documentation?

The EU guidance on management verifications highlights that '*All management verifications should be documented*', including administrative and on-the-spot checks.

Documentation can be recorded on paper or on electronic media. It can include, for instance:

- Checklists;
- Control reports;
- Memos;
- Letters of confirmation;
- Correspondence concerning significant matters (including e-mails);
- Copies of the beneficiary's records (e.g. contracts and agreements, invoices, promotional brochures, training material, etc.);
- Lists of items provided by the beneficiary (e.g. list of invoices, revenues, purchased goods, contracts, etc.);
- Photographs;
- Others

FLC documentation should provide a transparent basis for the FLC certificate and evidence that the work was performed in accordance with the applicable legal and regulatory requirements.

FLC documentation should also demonstrate the quality and transparency of the work done towards

third parties (e.g. audit authority, EC audit service, etc.): It should enable auditors, who have no previous experience with the controller or beneficiary, to fully understand the controls performed, the evidence obtained and the conclusions reached.

Finally, preparing good documentation also enhances the quality of the FLC work itself: It can be useful in planning and performing FLC work and enables supervisors or peers to review the work done (four-eyes principle). It also provides a solid basis to effectively follow-up on errors detected.

The EC guidance note on management verifications outlines requirements for documenting management verifications as follows:

*'The records should state:*

- 1) The work performed, the date of any on-the-spot verifications,*
- 2) The results of the verifications, including the overall level and frequency of the errors detected,*
- 3) A full description of irregularities detected with a clear identification of the related EC or national legal rules infringed and the corrective measures taken.'*

The EC guidance note on management verifications also highlights the importance of maintaining an overall recording system for verifications carried out:

*'An overall recording system for verifications carried out should be maintained for each programme. Records are kept in computerised monitoring information systems in a number of Member States. This facilitates the planning of verifications, helps avoid unnecessary duplication of work and provides useful information for other bodies (i.e. audit authority, certifying authority).*

*The date of on-the-spot verifications of individual operations carried out is required to be recorded in the computerised monitoring system'.*

### What are FLC working papers?

FLC working papers are all documents kept by controllers for a specific beneficiary and project. They are usually hard copies or - less frequently - electronic files. Their extent varies, with some FLC systems requiring their controllers to keep a full set of copies of all information available for a project and some FLC systems requiring only a very limited set of documents. While the first one can be excessive, the latter may miss out important information.

FLC working papers should ideally be designed in a way that information is easily traceable through documents and easy to find. A **working paper index** can be very helpful in organising working papers efficiently (see [Figure 5](#): EXAMPLE of a working paper index).

A working paper index can, for example, be organised in sections. Two main methods are in use:

- Preparing a lead schedule (i.e. the main topic of the section such as 'overheads'), with all supporting documentation following after it.
- Organising documents in chronological order.

An EXAMPLE of a working paper index (lead schedule) is provided below. This example must of course be adapted to the needs of the various FLC systems and programmes.

Basic information on beneficiary: address, telephone number, etc.	A
Correspondence	B
FLC certificate	C
Checklists, control reports, memos, etc.	D
<p>Project information</p> <ul style="list-style-type: none"> <li>• Approved project application, incl. project description</li> <li>• Subsidy contract, incl. approved budget</li> <li>• Partnership agreement</li> <li>• ...</li> </ul>	E
<p>Information on the beneficiary</p> <ul style="list-style-type: none"> <li>• Organisational chart</li> <li>• Job descriptions</li> <li>• List of representatives of the entity, list of persons having the authority to sign</li> <li>• Commercial register report</li> <li>• Contracts (e.g. service-level agreements, rent of offices, etc.)</li> <li>• Process descriptions, management manuals, etc.</li> <li>• Internal policies (public procurement rules, depreciation rules, etc.)</li> <li>• Reports of independent auditors or internal control</li> <li>• ...</li> </ul>	F
<p>Project reporting documentation</p> <ul style="list-style-type: none"> <li>• Financial report</li> <li>• Progress report</li> <li>• List of expenditure</li> <li>• ...</li> </ul>	G
<p>Staff costs</p> <ul style="list-style-type: none"> <li>• Calculation of hourly rates</li> <li>• Time sheets, time sheet summaries</li> <li>• Payslips/payroll information</li> <li>• Work contracts</li> <li>• ...</li> </ul>	H
<p>Depreciation</p> <ul style="list-style-type: none"> <li>• Calculation of depreciation</li> <li>• Proof of initial payment</li> <li>• Memo of a check of double declaration</li> <li>• ...</li> </ul>	I

<p>Overheads</p> <ul style="list-style-type: none"> <li>• Calculation of overheads</li> <li>• List of overhead costs</li> <li>• Accounting system print-out on allocation of overheads to the project</li> <li>• ...</li> </ul>	J
<p>Direct expenditure</p> <ul style="list-style-type: none"> <li>• Copies of invoices</li> <li>• ...</li> </ul>	K
<p>Public procurement</p> <ul style="list-style-type: none"> <li>• List of procurements made</li> <li>• Memo of the walk-through of a procurement process</li> <li>• Walk-through supporting documentation</li> <li>• ...</li> </ul>	L
<p>Accounting system</p> <ul style="list-style-type: none"> <li>• Memo of a walk-through of the accounting system</li> <li>• Walk-through supporting documentation</li> <li>• ...</li> </ul>	M
<p>Actual payment</p> <ul style="list-style-type: none"> <li>• Memo of a walk-through for actual payment</li> <li>• Walk-through supporting documentation</li> <li>• Copies of bank account statements</li> <li>• External confirmations for actual payment</li> <li>• ...</li> </ul>	N
<p>Financial management of the project</p> <ul style="list-style-type: none"> <li>• Proof of receipt of EU and national funds (bank account statement)</li> <li>• Proof of transfer of EU and national funds to partners (for Lead Partner only - bank account statement)</li> <li>• ...</li> </ul>	O
<p>Other compliance issues</p> <ul style="list-style-type: none"> <li>• Proof of existence of project and purchased goods and services (e.g. photos, delivery notes, any paper documenting the service provided such as training course material, etc.)</li> <li>• Proof of respect for information and publicity (e.g. photos of billboards, promotional brochures, project homepages, etc.)</li> <li>• ...</li> </ul>	P
<p>Other issues</p>	Q

Figure 5: EXAMPLE of a working paper index

It is useful to index working papers, by putting a unique identification number on the documents filed (calculation of hourly rates, time sheets, etc.) - such as 'H-4', with 'H' referring to the section of the working paper index and '4' to the numbering of documents in this section. Indexing working

papers at the moment of filing is often useful.

**Cross-references** ('x-ref') are references from one document to another. They can be useful in cases where one document explains information on another document. For instance, a list of persons having the authority to sign explains the signature on the payment order. It can be practical to write down **x-refs in red ink**, if they are done manually.

### What are some basic things to consider for checklists?

The EC guidance note on management verifications acknowledges the importance of checklists: *'Checklists, which act as a guide for carrying out the verifications, are often used to record each of the actions performed together with the results.'*

It can be useful to respect the following when designing checklists:

- The checklist should be well structured. It should contain sections identifying and describing clearly:
  - the project
  - the beneficiary
  - the controller
  - date of the control
  - control issues
- For the control issues, questions should be formulated in such a way that answers can be given with a 'yes' or 'no', at a maximum with a short phrase (e.g. 'Are rules on publicity respected?' as opposed to 'What publicity measures does the beneficiary implement?')
- The EC guidance note on management verifications highlights that checklists should be sufficiently detailed and should contain reference to the legal basis: *'Checklists, which act as a guide for carrying out the verifications, are often used to record each of the actions performed together with the results. These should be sufficiently detailed. For example, when recording verifications on the eligibility of the expenditure, it is not sufficient to have one box on the checklist stating that the eligibility of the expenditure in the declaration has been verified. Instead, a list of each of the eligibility points verified should be detailed with reference to the related legal basis (e.g. expenditure paid within the eligibility period, conformity of supporting documents and bank statements, appropriate and reasonable allocation of overheads to the operation).'*
- Foreseeing space for comments and another for cross-references for each question can be useful.

Controllers are confronted with an ever increasing workload, both in quantitative and qualitative terms. Eligibility rules leave room for interpretation and high error rates in the past have led to long and complex control checklists and lists of documents to be inspected. At the same time resources, including personnel and IT, are often not increased.

If controllers are not able to meet the requirements, they can be forced to prioritise, e.g. by reducing the sample sizes, sticking strictly to checklists and omitting everything that is too complicated to understand immediately or limiting follow-up on open questions. All of these small 'solutions' have one thing in common: They are likely to decrease the quality of FLC and increase

the risk of undetected errors.

Keeping these restrictions in mind - depending on the FLC system implemented - it is sometimes possible to use a limited standardised checklist, which covers basic checks to be undertaken in all verifications AND at the same time leaves room for additional checks, which are specific to the beneficiary and the project and the risks identified.

### What are control reports?

Some Member States require first level controllers to provide control reports, either as an attachment to or separate from the FLC certificate. Control reports can be addressed to the beneficiary, lead partners, FLC supervisors, managing authority, audit authority, etc. The purpose of control reports is to document all important circumstances while planning and executing the control of a particular beneficiary and project. They are signed at a minimum by the controller, in some cases by the controller and the controller's supervisor. Check lists can be attached to the control report.

National controllers use specific templates for the control report, which can be quite different in extent and approach throughout Europe. As usual, there is no best practice example and no 'one-size fits all' control report available in Europe. Below, we provide an EXAMPLE of the content of a control report.

EXAMPLE of the content of a control report:

- Project details (project title, reporting period, project type, etc.) and beneficiary details (name, address, lead partner or project partner, name(s) of responsible personnel etc.);
- Identification of controlled financial report (registration number, date of issue, etc.);
- Identification of the controller(s) (name and function);
- Description of verification
  - Date of checks
  - Administrative and/or on-the-spot verification
  - Reference to the use of an obligatory standard work programme such as check lists, FLC manuals etc.<sup>12</sup>
  - List of additional or specific checks (i.e. checks in addition to those listed in the checklist) such as checks of the beneficiary's procedures, accounting system, specific checks of double declaration, plausibility, etc.
  - Exceptions to the obligatory standard work programme (e.g. checks that could not be

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<sup>12</sup> Usually check lists describe the FLC standard work programme. Sometimes further descriptions exist, e.g. in FLC manuals. The FLC work programme outlines the set of controls that controllers perform. The FLC work programme varies among FLC systems and programmes and can also vary with the type of project, beneficiary and risks identified. The standard work programme can be included in the control report.

performed, as no evidence was available; checks that were not applicable due to the nature of the project or expenditure<sup>13</sup>, etc.)

- Scope of the checks (e.g. full checks of all supporting documents, sample checks, sample checks of procedures, etc)
- Descriptions of samples, if any (identification of the population, size of sample, sample method)
- Indication of identified risks/risk assessments, if any
- Any limitation to the verification, e.g. undisclosed documents, information not provided, issues that the controller was unable to check due to access restrictions or for other reasons, etc.;
- Restriction on distribution and use (statement explaining that this control report is intended solely for the use of the beneficiary, the beneficiary's lead partner, the managing authority and second level control and should not be distributed to or used by other parties);
- Date, scope and results of a review of the checks (e.g. by a peer or superior);
- Reference to the FLC certificate;
- Others

NOTE: The sum of eligible expenditure is contained in the FLC certificate and does not necessarily have to be repeated in the control report. Control reports can, however, contain **information on the errors found** (e.g. a list of errors found and the total amount of ineligible expenditure) to inform others about the errors and the sum deducted. In this respect the EC guidance note on management verifications states that:

*'Cases of irregularities which are detected and corrected by the managing authority or certifying authority before any payment to the beneficiary of the public contribution and before inclusion of the expenditure concerned in a statement of expenditure submitted to the Commission, do not have to be reported to the Commission [Article 28(2) (EC) 1828/2006]. Nonetheless, such irregularities and corrections should be recorded.'*

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<sup>13</sup> Such an overview is important for the reader of the report because the reader needs this information to understand on which basis controllers formed their conclusions regarding eligibility of expenditure.

### What are memos?

Sometimes controllers prepare a separate memo for specific checks done. This can include, for example, memos of general or specific interviews, memos of walk-throughs, memos of observations, etc. Memos can be especially useful when dealing with complex or unclear processes or structures in relation to accounting, organisational structures, affiliated organisations, relationships between beneficiaries and sub-contractors, in-house contracting, staff costs, procurements, etc. Memos can contain information provided to the controller by the beneficiary (e.g. from interviews, walk-throughs and inquiries) as well as outcomes of checks and conclusions.

EXAMPLE - documenting an interview on staff cost calculation with a memo:

		Cross-reference to other documents
Project data	<i>Identification of project</i>	
Beneficiary data	<i>Identification of the beneficiary</i>	
Controller	<i>Name of the controller</i>	
Date	<i>Date of control</i>	
Purpose	<i>Verification of calculation of staff costs (calculation of hourly rates and calculation of total project staff costs)</i>	
Check done	<i>Obtaining information on calculation method for staff costs via interview</i>	
Interview with	<i>List of all interviewed partners</i>	
Result	<i>Describe calculation method in chronological order</i>	
Conclusion	<i>Conclude on the principal design of the calculation method: Indicate risks identified; conclude on further FLC checks to be done; if necessary, describe financial error, follow-up measures and legal basis</i>	

Figure 6: EXAMPLE of documenting an interview on staff costs

### What are defined tick-marks?

When performing checks, controllers put tick-marks on checklists and on other documents. For instance, the EC guidance note on management verifications suggests that *‘For more straightforward verifications such as checking the sum of a list of transactions, a simple tick beside the total figure would suffice to record the work done. The name and position of the person performing the verifications and the date they were carried out should always be recorded.’*

Considering the wide range of possible controls, in order to be transparent, it can be practical to define the meaning of tick-marks and to note the definition, e.g. at the bottom of the first page of the document checked. Below, some examples of such defined tick-marks are listed:

- ✓ Check of actual payment. JT (initials of the controller). 25.9.2009 (date of check)
- ✗ Check if cost item belongs to the project. JT. 25.9.2009
- ✗ Check if cost item is allocated to the correct project number/cost accounting. JT. 25.9.2009
- ✓ Check if cost item is included in the project cost centre. JT. 25.9.2009

Figure 7: EXAMPLE defined tick-marks

Defined tick-marks can also be cumulative and more than one type of tick-mark can be used on the same document.

The list of different tick-marks can be continued almost endlessly. Colours can be varied as well, however, black is often not practical as it cannot be so easily spotted on black-and-white documents.

### Who reviews the documentation?

Many controllers find the ‘four-eyes principle’ very useful. Review of control documentation by a superior or a peer with a view on consistency, completeness, transparency and whether the control objectives were achieved, can significantly improve the quality of FLC work. This review is sometimes done by a controller, who was not previously involved in the actual check, in order to ensure independence.

Date, scope and results of the review can be documented and included in the working papers.

### Experiences

- *FLC documentation is not a substitute for the entity’s accounting records. It is not necessary to double the archives of the controlled entity in the working papers (Susanne Volz - audit expert). [Link to documentation](#)*
- *Out-dated drafts (e.g. of memos), notes that reflect incomplete or preliminary thinking and duplicates of documents can be misleading and confusing. They should be removed from the FLC working papers, provided that this is in line with national and programme provisions (Susanne Volz - audit expert). [Link to documentation](#)*
- *Checklists are important and help controllers that they do not forget anything. However, controllers should not forbid themselves to check other issues that are not included in the*

checklist (Joseph Degiron - FLC expert INTERREG IVA Upper-Rhine). [Link to documentation, checklists, work programme](#)

- Used appropriately, a checklist can provide a good summary of control results and a good orientation for controllers and reviewers. Checklists also help controllers to ensure completeness. However, the use of checklists can sometimes encourage controllers to focus too much on the standard issues included in the checklist. Extraordinary and complex issues may be overseen. Controllers should be aware of this risk and should never restrict themselves to perform further checks outside the scope of the checklist (Susanne Volz - audit expert). [Link to documentation, checklists, work programme](#)
- Whenever we detect errors that lead to reductions of ERDF contributions, we double-check our work by re-performing it. The re-performance is done by the controller who did the initial check (Joseph Degiron - FLC expert INTERREG IVA Upper-Rhine). [Link to documentation, errors and financial corrections](#)
- Our procedures manual for first level control and beneficiaries includes information on the required FLC documentation. We also use specific checklists, depending on the programme, e.g. expenditure checklists, public procurement checklists, on-the-spot checklists, and separate checklists for each cost category. In my experience, the checklists for specific cost categories are very useful, as in the end of the verifications, controllers need to check under- or overspending for each budget line (Roberto Piccini - FLC expert, Friuli Venezia Giulia, Italy). [Link to documentation, checklists, work programme, on-the-spot checks](#)
- For this programming period, we prepare on-the-spot control reports, that are attached to the project control reports (Thomas Grass - FLC expert, Burgenland, Austria). [Link to documentation, on-the-spot checks](#)
- After the first level control was performed, the controllers should provide the project managers with the feedback and conclusions of the control, in order to avoid repeating mistakes of implementation. In many cases, the results presented by the controllers in the control reports are neglected and no corrections are made regarding the project implementation, which make the controllers' activity more difficult. The role of controllers is not to carry out endless verifications for the same problems uncorrected by the project partners (FLC experts - Romania). [Link to documentation, the role of FLC, errors and financial corrections](#)
- Controllers need a clear instruction what should be done in case errors in already certified documents are found. Should the error be corrected by deduction of the ineligible amount in the current/next reporting period or should the controller correct the certificate in which the amount was declared and confirmed? In my opinion, the controller should be able to correct ineligible amounts in the current/future financial reports. Only in case the project is finished, the controller should correct the last certificate issued within the project (Katarzyna Suda-Puchacz - FLC expert, Poland). [Link to documentation, the role of FLC, errors and financial corrections](#)

## 8. Glossary of terms and abbreviations

<i>Administrative verification</i>	Control checks based on documents provided by beneficiaries undertaken by first level controllers (and managing authorities) in their own offices. For the purpose of this compendium usually understood as referring to checks undertaken by first level controllers.
<i>Audit trail</i>	Documentation of detailed transactions supporting summary ledger entries. In most cases this is simply a matter of storing the invoices issued for products and services delivered. The Managing Authority keeps a record of where all of these documents are stored (most of them will be in project offices), so that controllers can always know where to check if they have questions.
<i>Check of completeness</i>	Checking whether or not information and documentation provided by the beneficiary is complete.
<i>Check of compliance with EU and national legislation, OP and contract</i>	Checking whether or not the beneficiary/the project fulfils legislative, operational programme and contractual requirements.
<i>Check of existence and reality</i>	Checking whether or not the beneficiary, the project, the product, a service or a situation exists in reality as it is described in project reports, project documents or oral explanations.
<i>Check of plausibility</i>	Checking whether a project-related issue as outlined in project documents or described by the beneficiary is plausible (i.e. credible and probable).
<i>Checklist</i>	List summarising required control checks in a specific order.
<i>Closing interview</i>	A general interview of the beneficiary at the end of an on-the-spot check with the intention of clarifying control results and errors detected. Often conducted with the organisation's head or project manager.
<i>Common practice</i>	Practice widely used by controllers.
<i>Control memo</i>	Document prepared by controllers in order to document a specific issue assessed. They are mostly intended for internal use only.
<i>Control report</i>	Document that outlines all important circumstances while planning and executing the control of a particular beneficiary and project.
<i>Cost shares</i>	Cases in which costs incurred by a beneficiary are only partly allocated to the project. Examples for 'cost shares' are

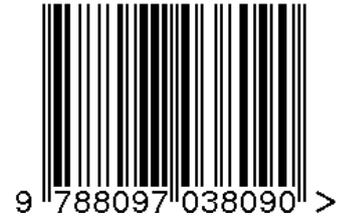
	overhead costs, staff costs only partially allocated to the project (e.g. in case of staff members working part-time on the project), an invoice distributed among several cost centres and depreciation of equipment only partly used for the project. They are not to be confused with 'shared costs' (i.e. costs shared among partners of a project).
<i>Cross-references ('x-ref')</i>	References from one document to another, e.g. 'x-ref H-4'
<i>Defined tick-marks</i>	Tick-marks with a defined meaning, such as 'check of actual payment', 'cost item belongs to project' or 'cost item is allocated to the correct cost centre', can be used by controllers in order to document their control work performed.
<i>Entity</i>	Person, partnership, organisation or business unit, which has legal existence, for which accounting records are kept and about which financial statements are prepared
<i>ETC</i>	European territorial cooperation
<i>FLC</i>	First level control
<i>FLC certificate</i>	Verification and confirmation by an independent controller in accordance with the first level control system set up by each member state and programme requirements.
<i>FLC documentation</i>	A hard copy or electronic record of (1) the various controls performed by a controller, (2) the results and relevant evidence obtained through these controls and (3) the conclusions reached and corrective measures taken.
<i>FLC procedure</i>	A sequence of activities that produces a described result, product or outcome. For the purpose of this compendium usually understood as referring to first level control procedures with a specific control objective.
<i>FLC standard work programme</i>	Usually check lists describe the FLC standard work programme. Sometimes further descriptions exist, e.g. in FLC manuals. The FLC work programme outlines the set of controls that controllers perform. The FLC work programme varies among FLC systems and programmes and can also vary with the type of project, beneficiary and risks identified. The standard work programme can be included in the control report.
<i>FLC working papers</i>	All documentation of control procedures performed, relevant control evidence obtained and conclusions the first level controller reached.
<i>Indexation</i>	Putting index numbers on documents for future easy

	reference.
<i>Inquiry</i>	A documented discussion with a beneficiary.
<i>Inspection of documents and records</i>	The reading and understanding of any relevant document, electronic record or print out of an electronic record.
<i>Internal controls</i>	Systematic controls (such as reviews, checks, quality assurance, etc.) applied by an organisation.
<i>International audit standards (ISA)</i>	Audit standards issued by the International Federation of Accountants (IFAC; <a href="http://www.ifac.org/">http://www.ifac.org/</a> ). Second Level Control - but not FLC - is obliged to use ISA or other international audit standards: According to Article 62 of (EC) no. 1083/2006, 'The audit authority shall ensure that the audit work takes account of internationally accepted audit standards.'
<i>Interview</i>	An extensive inquiry; a documented discussion with a beneficiary on complex matters.
<i>MA</i>	Managing authority
<i>Material misstatement</i>	A misstatement of the financial report is material, if it exceeds the threshold or cut-off point of error (= ineligible expenditure), which the users of the financial report (i.e. managing authority, audit authority or others) would accept, without concluding that the financial report contains too much ineligible expenditure. As second level control needs to comply with EU regulations, a materiality level of 2% of the declared expenditure could in theory be deemed appropriate for first level control as well. However, first level controllers need to decide on the materiality level in compliance with their applicable first level control system. FLC systems often do not define a materiality level or ask for a materiality level of 0%, meaning that no ineligible expenditure at all is accepted by first level control.
<i>Misstatement</i>	A misstatement of the financial statement (=financial report) that can arise from fraud or error. See also: Material misstatement
<i>Observation of events and processes</i>	Watching people while they execute project-related activities such as an event or an internal accounting process.
<i>On-the-spot verification</i>	Control checks undertaken by first level controllers (and managing authorities) on the premises of a beneficiary or any other project-related site. For the purpose of this compendium usually understood as referring to checks undertaken by first level controllers.

<i>OP</i>	Operational programme
<i>Opening interview</i>	A general interview of the beneficiary at the beginning of an on-the-spot check with the intention to obtain an understanding of the beneficiary, its processes, its organisation, its environment and the project. Often conducted with the organisation's head or project manager.
<i>Professional judgement</i>	The application of relevant training, knowledge and experience, within the context provided by control, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the first level control work.
<i>Project cost centre</i>	Distinctly identifiable costs within the beneficiary's accounting system
<i>Re-calculation</i>	Re-performing a calculation of the beneficiary (e.g. a cost-share allocated to the project).
<i>Reconciliation</i>	Checking whether a figure included in one document is identical with the same figure included in another document (e.g. comparing figures in the bank account statement with the list of expenditure).
<i>Risk</i>	Potential error source. For the purpose of this compendium usually understood as potential error source in the financial report of the beneficiary.
<i>Risk of material misstatement</i>	The risk that the financial report of the beneficiary is materially misstated prior to first level control.
<i>Risk assessment</i>	Analysis of potential error sources for the project's financial report. Risk assessment may be reflected in controller's planning of the control work (e.g. what to do on-the-spot).
<i>Risk assessment procedures</i>	The first level control procedures performed to obtain an understanding of the beneficiary, its environment and the project, to identify and assess the risks of material misstatement of the financial report, whether due to fraud or error.
<i>Risk considerations</i>	See 'Risk assessment'.
<i>Shared costs</i>	Costs shared among partners of a project. Sometimes they are also called 'common costs' as these costs are common to all partners. Examples can include costs for a common webpage or external expertise for project management, which are shared by all partners. They are not to be confused with 'cost shares' (i.e. cost incurred by a beneficiary are only partially allocated to a project).

<i>SLC</i>	Second level control
<i>Specific interview</i>	An interview or obtaining information on specific (e.g. high risk) issues or transactions. Often conducted with the person responsible for the issue/transaction (e.g. project accountant)
<i>Subsidy contract</i>	Grant agreement between the contracting authority (managing authority) and the lead beneficiary
<i>Sub-procedure</i>	For the purpose of this compendium usually understood as referring to ancillary control procedures, which are often used to perform substantive control procedures.
<i>Substantive control procedures</i>	Control procedures designed to detect material misstatements in the financial report.
<i>Territorial cooperation programmes</i>	Used for the purpose of this compendium to refer to European territorial cooperation (ETC) programmes between member states AND to cooperation programmes between member states and IPA (Instrument for Pre-accession Assistance) countries (IPA CBC programmes) under shared management.
<i>Tick-marks</i>	see 'defined tick-marks'.
<i>Walk-through</i>	Tracing of a specific process or transaction of a beneficiary step by step
<i>Workflow</i>	Progression of steps (tasks, event, interactions) that comprise a work process.
<i>Working paper index</i>	A cover sheet that outlines organisation and indexation of the working papers. Logically arranged list of items.

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INTERACT Point Vienna  
Museumstraße 3/A/II  
1070 Vienna  
Austria

t: +43 1 4000 27084  
ip.vienna@interact-eu.net  
www.interact-eu.net