

# Financial Guidance

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**Guidance on how to carry out financial management and reporting under the EEA and Norwegian Financial Mechanisms for 2014-2021**

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## **LIST OF ABBREVIATIONS**

<b>AA</b>	Audit Authority
<b>AAR</b>	Annual Audit Report
<b>AO</b>	Audit Opinion
<b>CA</b>	Certifying Authority
<b>DPP</b>	Donor Programme Partner
<b>EEA</b>	European Economic Area
<b>EU</b>	European Union
<b>EUR</b>	Euro
<b>FMC</b>	Financial Mechanism Committee
<b>FMO</b>	Financial Mechanism Office
<b>FPR</b>	Final Programme Report
<b>IA</b>	Irregularities Authority
<b>IFAC</b>	International Federation of Accountants
<b>IFR</b>	Interim Financial Report
<b>INTOSA</b>	International Organisation of Supreme Audit Institutions
<b>IPO</b>	International Partner Organisation
<b>ISA</b>	International Standard on Auditing
<b>ISSAI</b>	International Standard of Supreme Audit Institutions
<b>ISRS</b>	International Standard on Related Services
<b>MCS</b>	Management and Control Systems
<b>MoU</b>	Memorandum of Understanding
<b>NFP</b>	National Focal Point
<b>NGO</b>	Non-governmental Organisation
<b>NMFA</b>	Norwegian Ministry of Foreign Affairs
<b>PA</b>	Programme Area / Programme Agreement
<b>PDP</b>	Pre-defined Project
<b>PIA</b>	Programme Implementation Agreement
<b>PLN</b>	Polish Zloty
<b>PO</b>	Programme Operator
<b>PP</b>	Project Promoter
<b>TA</b>	Technical Assistance
<b>TER</b>	Total Error Rate
<b>VAT</b>	Value-added Tax



# 1 Introduction

This guidance document has been developed by the Financial Mechanism Office (FMO) and is aimed at assisting national authorities, programme operators, project promoters and project partners. It is provided for information purposes only and is not part of the legal framework of the Financial Mechanisms, nor is it intended to replace consultation of the legal framework where appropriate. Neither the FMC/NMFA, the Financial Mechanism Office nor any person acting on their behalf can be held responsible for the use made of these guidance notes.

For legal purposes, reference is made to the Regulations on the implementation of the European Economic Area (EEA) Financial Mechanism and of the Norwegian Financial Mechanism 2014-2021 (the Regulations). This document will be updated to reflect modifications to the legal framework. In case of any inconsistency, the provisions of the latter shall apply.

## 2 Preparation/planning phase

### 2.1 Information needed before the conclusion of the Programme Agreement

Programmes to be implemented in the respective Beneficiary States are agreed upon in the individual Memorandum of Understanding (MoU) along with the respective grant allocation and the required programme co-financing.

Each Programme Operator (PO) will have to submit a concept note for each programme to the FMO (Reg. Art. 6.2). A template for the concept note is provided in Reg. Annex 5. The concept note will have to include a high-level budget as shown below:

Table 1: Budget

PA	Budget heading	EEA Grants	Norway Grants	Total grant	Programme grant rate	Programme eligible expenditure
PM	Programme Management	€ 100 000	€ 100 000	€ 200 000	85.00%	€ 235 294
PA2	Outcome 1	€ 900 000	€0	€ 900 000	85.00%	€ 1 058 824
PA4	Outcome 2	€0	€ 900 000	€ 900 000	85.00%	€ 1 058 824
	<b>Total</b>	<b>€ 1 000 000</b>	<b>€ 1 000 000</b>	<b>€ 2 000 000</b>	<b>85.00%</b>	<b>€ 2 352 942</b>

As a programme can be financed both from the EEA and Norwegian Financial Mechanisms, as determined in the MoUs, it is necessary to indicate which budget headings are financed from the respective Financial Mechanism. The programme grant rate will also have to be

set for each of the budget headings, respecting the co-financing obligations laid down in the MoUs. The maximum programme grant rate is 85% (Reg. Art. 6.4).<sup>1</sup>

Based on the submitted concept note and comments from the FMC/NMFA, the FMO will prepare a draft Programme Agreement (PA) in consultation with the NFP/PO. During this phase the PO will have to provide further additional information in accordance with a template to be provided by the FMO. The following finance related information will be required:

- 1) Management cost budget;
- 2) Further details on internal organisation of the PO and programme management;
- 3) Project related information.

### **2.1.1 Management cost budget**

The PO should provide the FMO with a more detailed indicative breakdown of the management costs requested in the concept note. The detailed breakdown will be used to assess the efficiency of the management costs during the preparation of the programme agreement. The detailed budget breakdown will not be annexed to the PA.

The budget categories may follow the categories provided in Reg. Art. 8.10.4 (Table 2 below), keeping in mind that only expenditures falling into one or more of the categories below are eligible under programme management costs.

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<sup>1</sup> Exceptions as per Reg. Art. 6.4:

- (a) programmes under the programme area "Civil Society";
- (b) programmes operated by the FMO, inter-governmental organisations or Donor State entities in accordance with Article 6.13; and
- (c) other programmes of special interest,

Table 2: Breakdown of the management costs per category

Heading	Amount in EUR
Programme elaboration – until approval (Reg. Art. 8.10.4 (a))	
Preparation of programme implementation (Reg. Art. 8.10.4 (b))	
Projects appraisal and selection (Reg. Art. 8.10.4 (c)/(d))	
Verification of expenditure, monitoring and audits (Reg. Art. 8.10 (e), (f), (g))	
Promotional and information activities (Reg. Art. 8.10.4 (h))	
Reporting to FMC/NMFA and national authorities (Reg. Art. 8.10.4 (i))	
Establishment and operation of bank accounts (Reg. Art. 8.10.4 (j))	
Overheads (Reg. Art. 8.10.4 (k))	
Expenditure related to the Cooperation Committee (Reg. Art. 8.10.4 (l))	
Expenditures related to the strengthening of bilateral relations (Reg. Art. 8.10.4 (m))	
Cooperation activities, exchange of best practices between the Programme Operators and similar entities within the Beneficiary State and/or Donor States, and/or international organisations (Reg. Art. 8.10.4 (n))	
<b>Total budget</b>	

In addition, total costs for the different types of expenditure should be provided to enable the FMO to assess the cost efficiency of the management costs when the programme agreement is drafted (Table 3 below).

Table 3: Programme management costs per budget heading - example

Type of expenditure	Total costs (€)	Comments/additional information
Staff Costs		<i>Number of employees, duration of employment and part-time vs full-time (if relevant)</i>
Depreciation of equipment		<i>Indicate equipment, including type, number of items and cost, starting with the most expensive equipment.</i>
Meeting and travel costs		<i>Justify by number of travels and meetings - please specify approximate budget for travel and meetings separately</i>
External experts (project selection, monitoring, audits, reviews, etc.)		<i>Justify the costs by providing a breakdown by type of service (i.e. project selection, monitoring, audit, etc.)</i>
Cost of reporting and promotional and information activities		<i>Ensure that all obligatory reporting and promotional task are included in the budget. Justify the costs by providing a breakdown by type of service (i.e. reporting and/or promotion)</i>
Charges related to the bank accounts		
Overheads		<i>Indicate type of calculation</i>



Should the PO delegate some of the tasks to other entities or, on the basis of the MoU the tasks are split between different entities, the budget should be split across the organisations. The PO should submit the budget in excel format, including the background calculation.

Reg. Art. 8.10.2 sets the maximum amount for the management costs, where the limit is a percentage of the total eligible expenditure of the programme:

- 1) 10% of the first € 10 million;
- 2) 7% of the next € 40 million;
- 3) 5% of the next € 50 million;
- 4) 4% of the remaining total eligible expenditures of the programme.

**Example:**

If the total programme budget is € 56 million, the maximum management budget is € 4.1 million.

Calculation: € 10m x 10% + € 40m x 7% + € 6m x 5% = € 4.1m

### **2.1.2 Further details on the internal organisation of the PO and programme management**

An overview of the organisation and division of tasks within the PO shall be provided. The PO shall ensure the sufficient separation of tasks, in particular the independence and functional separation of the division responsible for verification of incurred expenditure and approval of payments from other divisions responsible for the implementation of the programme (Reg. Art. 5.6.1 (I)).

Information on the role of the programme partners/implementing agencies should also be included when applicable. Reg. Art. 5.6 provides details on the responsibilities of the PO and could serve as a starting point for the overview. The overview should also contain an organigram and details on the staffing.

The PO shall provide a plan for the verification of expenditures in projects, including donor project partners' (dpp) expenditures. It is important that POs have a clear vision on how they will verify expenditures. The FMO encourages a sample and risk-based approach (see section 3.3 for further information).

In accordance with Reg. Art. 5.6.1 (I) it is required to have a clear functional separation of the division responsible for verification of financial reports/expenditures incurred from other divisions responsible for the implementation of the programme.

The PO shall provide information on how it foresees making payments to projects. Payment models can be based on pre-financing of forecast expenditure, payment upon receipt of statement of incurred expenditure, attaining milestones in projects, or pre-defined payment schedules. The PO has an obligation to ensure that payments of the project grants are made in a timely manner (Reg. Art. 5.6.1 (f)), i.e. the PO needs to ensure sufficient funds for the projects during the implementation, effectively avoiding any liquidity problems.

### **2.1.3 Project related information**

The PO will have to provide information on the grant rates that will be awarded to the projects. The foreseen project grant rate along with any variations among applicants should be included in the PA. In principle, no combination of funding is allowed at project

level where programmes are financed by both Financial Mechanisms. Each project should be financed either by the EEA or by the Norwegian Financial Mechanism.

If the PO wants to expand (e.g. exceed the max 10% of eligible cost for land/real estate purchase) or restrict the eligibility of eligible costs (e.g. exclude overheads) this will have to be communicated and justified as this is subject to Donor approval and has to be explicitly stipulated in the PA.

Project Promoters (PP) should provide a detailed budget on any pre-defined project included in the concept note.

## **2.2 Grant rates and co-financing (Reg. Art. 6.4)**

For all programmes and projects, information on the grant rate shall be provided. The grant rates shall be calculated as a percentage of the total eligible expenditure. As a general rule the co-financing shall be in the form of cash, including electronic transfers. However, there are two exceptions to the co-financing in form of cash:

- 1) For projects where the PP is a non-governmental organisation (NGO) or a social partner, in-kind contribution in the form of voluntary work may constitute up to 50% of the co-financing required by the programme for the project. In exceptional cases, and subject to approval by the FMC/NMFA in-kind contribution in the form of voluntary work may constitute up to 100% of the co-financing required;
- 2) For projects under Donor Partnership Programmes falling under the programme area "Research", in-kind contribution in the form of labour may constitute up to 100% of the co-financing required for the project.

In both cases the PO shall specify the appropriate unit prices for the voluntary work/labour which shall be in accordance with salary normally paid for such work in the Beneficiary State, including the required social security contributions (Reg. Art. 6.4.6/7). The unit prices may be adjusted during the implementation of the programme in order to account for changes in salaries.

The minimum and maximum grant amounts for projects and the grant rates at project level shall be determined in the PA. The amount of grant assistance applied for within a programme shall normally be higher than €1,000,000 and not less than €200,000.

However, the Reg. Art. 6.4.9 outlines in which cases the PO may propose a lower threshold than €200,000:

- Programmes under the programme areas: "Education, Scholarships, Apprenticeships and Youth Entrepreneurship", "Cultural Entrepreneurship, Cultural Heritage and Cultural Cooperation", "Civil Society", "Social Dialogue – Decent Work" and "Asylum and Migration";
- Small grants schemes referred to in Reg. Art. 6.6 and fund for bilateral relations;
- Scholarships;
- Projects targeting Roma inclusion.

Projects that do not fall under the cases mentioned above can also benefit the exception, provided that they fall within a dedicated component related to the exceptions mentioned in Reg. Art 6.4.9.

### **2.2.1 Programme Level**

At programme level the contribution from the Financial Mechanisms 2014-2021 shall not exceed 85% of the eligible expenditure of the programme with some exceptions as stated

in Reg. Art. 6.4.1<sup>2</sup>. The FMO will disburse the grant part of the proposed expenditure, unless expenditure proposed by the PO is considered unjustified. Payments to programmes will be calculated by applying the grant rates set at budget heading level (in accordance with the PA). The principle of pro rata financing shall apply, meaning that the payments of the programme grant from the FMO shall be matched within one month by payment from the entity or entities responsible for providing the co-financing (Reg. Art. 9.1.5).

$\text{Programme Grant Rate} = \text{Programme Grant} / \text{Programme Eligible Expenditure}$
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**Example: Programme grant rate**

85.0000%
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	Previous advance and interim payments	Interim payment this period	Total to date
Eligible expenditure	€ 8,930,775	€ 60,000	€ 8,990,775
Contribution (€)			
EEA / Norwegian Financial Mechanisms	€ 7,591,158	€ 51,000	€ 7,642,158
Co-financing	€ 1,339,617	€ 9,000	€ 1,348,617

### 2.2.2 Project Level

At project level the grant rate shall be calculated as a percentage of the total eligible expenditure of the project, as proposed in the concept note and determined in the PA. The PP shall receive reimbursements/pre-financing from the PO according to this rate.

$\text{Project Grant Rate} = \text{Project Grant} / \text{Project Eligible Expenditure}$
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**Example:** Project grant rate

Under the calls for proposals under Measures 1 to 3 (Normal Grant Scheme/call for proposals) grants from the programme will not exceed, as a proportion of the total eligible project expenditures:

- 100% in the case of PPs that are central government bodies;
- 90% in the case of PPs that are NGOs (Reg. Art. 6.4.3).

Under the Small Grants Scheme the grant rate at project level will not exceed 90%.

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<sup>2</sup> Programmes under the programme area "Civil Society"; programmes operated by the FMO, inter-governmental organisations or Donor State entities in accordance with Article 6.13 of the Regulations; and other programmes of special interest.

The grant rate at project level does not automatically apply to all partners within the project. The project grant rate is based on the nature of the PP, and not of the project partners. The relationship between the promoter and the partners should be agreed between them (Reg. Art. 7.7). The Regulations do not state any specific obligations for co-financing by partners.

**Example:**

There might be 4-5 entities involved in one project as project partners, with one entity submitting the application and ultimately becoming the Project Promoter. It is possible that the Project Promoter provides the necessary co-financing for the whole project, whilst the others receive 100% of their eligible expenditures in the form of grant.

As long as the Project Promoter provides the necessary co-financing, no other partner needs to supplement, including a NGO or a donor project partner. This should however always be agreed between the partners and specified in the partnership agreement.

When deciding on the grant rate of the project, the PO must take into account economic benefits that are expected to be generated in the course of the project as a result of receiving a financial contribution. The PO shall develop a methodology to calculate the expected economic benefits for the income generating projects. The correct application of the methodology should be included in the audit scope of the AA. The methodology does not need to be reviewed by the FMO.

### **2.3 Technical Assistance to the Beneficiary State (Reg. Art. 8.11)**

The NFP shall coordinate the use of the technical assistance (TA). The budget for the whole implementation period, including a detailed budget for the first calendar year shall be provided by the NFP to the FMO as soon as possible after the signing of the MoU.

The amount shall be fixed in an agreement on technical assistance between the FMC/NMFA and the NFP (see Reg. Annex 7 for technical assistance agreement template). No co-financing is required for the TA from the Beneficiary States.

The following categories of expenditure may be eligible costs for TA under the conditions and limits set out in Reg. Art. 8.11.3-10 and general principles set out in Reg. Art. 8.2, provided that the expenditure is proportionate and necessary:

- a. In the case of additional management systems specifically established for the Financial Mechanisms 2014-2021, expenditure relating to the preparation, evaluation, financial flow, and monitoring of the assistance, programmes and the fund for bilateral relations;
- b. Preparation of and participation in annual meetings with the Donor States, and other meetings with the Donor States relating to the implementation of the assistance. This expenditure may also include the costs of experts and other participants, including third-country participants, where the chairperson considers their presence essential to the effective implementation of the assistance;
- c. Meetings and conferences organised by the NFP, the AA, the IA or the CA to share experience related to the implementation, monitoring, evaluation, reporting and auditing of projects funded by the Financial Mechanisms 2014-2021, including expenditure related to travel and accommodation of participants. The Donor States shall be invited to participate in such meetings or conferences;
- d. Promotional and information activities;
- e. Audits referred to in Reg. Art. 5.5, and paragraph 3 of Reg. Art. 5.7;
- f. Expenditure related to on-the-spot verifications of programmes and projects;
- g. Reviews and evaluations;

- h. TA for the implementation of the Financial Mechanisms 2009-2014 incurred during the 12 months following the final date of eligibility for that TA; and
- i. Preparation of the implementation of the Financial Mechanisms 2014-2021.

The Regulations do not specifically identify trainings and improvement of professional skills in general as being eligible under the Financial Mechanisms. There is a general assumption that national authorities should already possess the necessary skills and competences required to fulfil their role (including e.g. language skills).

In justifiable cases, however, costs of the participation of the staff in trainings aimed at improving skills in terms of performing their tasks, such as monitoring, public procurement, financial management and/or programme content-related may be considered as eligible.

Before certifying the related costs, the CA should check whether there has been a proper justification concerning the participation of the staff in trainings aimed at improving skills in terms of performing their tasks, such as monitoring, public procurement, financial management and/or programme content-related.

The first date of eligibility for support within TA shall be the date of the last signature of the MoU with the respective Beneficiary State. If support for TA is received under both the EEA and the Norwegian Financial Mechanisms, the first date of eligibility of any funding for TA shall be the date of the last signature of whichever MoU is signed first.

The final date of eligibility of expenditure under TA shall be 31 August 2025. The Final Programme Report (FPR) for TA shall be submitted no later than 15 November 2025.

Expenditure related to the preparation of the implementation of the Financial Mechanisms 2014-2021 (Reg. Art. 8.11.8 and 8.11.2 (i)) may be eligible as of the date when the FMC/NMFA are notified of the designation of the Beneficiary State authority responsible for the MoU negotiations. Eligibility of incurred expenditure shall be conditional on the signature of the MoU and could, e.g., cover the travel/accommodation and remuneration costs for representatives of the NFP and line ministries/institutions involved in the negotiations process of the MoU or remuneration of NFP employees involved in preparation of national legal framework of the FMs 2014-2021 etc. provided that the expenditure is proportionate and necessary.

#### **2.4 Eligibility of expenditures**

The principles described below apply mutatis mutandis to any kind of eligible expenditure incurred under the Financial Mechanisms 2014-2021.

In order to be considered eligible, expenditures incurred within the project must satisfy the eligibility criteria laid down in the Reg. Art. 8.2-6, applicable to expenditures actually incurred by the PP and/or project partner(s).

Supporting documents<sup>3</sup> regarding expenditures and audits must be kept either in the form of originals or in versions certified to be in conformity with the originals for a period of at least three years following the approval of the FPR (Reg. Art. 9.8), without prejudice to more stringent national rules.

In order to be eligible, expenditures need to be in accordance with the following subsections.

#### **Expenditure item, expenditure category and budget heading**

An expenditure item is one separable expenditure, e.g. an invoice, a person's salary or an office supply. An expenditure category is simply a group of expenditures, e.g. depreciation of equipment, salaries, travel costs. Budget headings are used to group expenditure, e.g. in a programme budget there is a separate budget heading for management cost, and a separate budget heading for each outcome. In a project cost (budget) staff costs are one example of a budget heading.

#### **2.4.1 Incurred between the first and final dates of eligibility**

Only costs incurred during the specified eligibility period are eligible.

On the project level, incurred expenditure shall be eligible for grant assistance as of the date on which the PO decides to award the project grant<sup>4</sup>, unless a later date is provided in the PA, Programme Implementation Agreement (PIA), or the project contract. The first and final dates of eligibility of project expenditures shall be stated in the project contract. The final date of eligibility shall be no later than either one year after the scheduled completion of the project or 30 April 2024, whichever is earlier. (Reg.Art.8.13)

The first date of eligibility of any pre-defined project shall be no earlier than the date on which the NFP notifies the FMO of a positive appraisal of the pre-defined project by the PO (Reg. Art. 6.5.3).

#### **2.4.2 Connected with the subject of the project contract and indicated in the budget**

Estimation of eligible expenditures should be shown in detail in the project cost (budget). One and the same expenditure item reported in one budget heading cannot be reported and reimbursed in any other budget heading.

Project applications should include a detailed estimated budget. At the stage of the project selection, the eligibility of expenditures included in the project cost (budget) should be verified. In line with Reg. Art. 7.6.3 (k) the project cost (budget) will be part of the project contract. The final grant amount is calculated on the basis of the accepted actual eligible project cost. If the actual project cost turns out to be higher than the cost budgeted, the maximum grant amount (set in the project contract) will not be increased.

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<sup>3</sup> Original documents, especially accounting and tax records, or, in exceptional and duly justified cases, certified copies of original documents

<sup>4</sup> The decision to award the project grant is normally made before signature of the project contract, and should be documented (by correspondence to PP, formal letter etc.).

### **2.4.3 Proportionate and necessary for the implementation of the project**

Costs must be reasonable and justified.

**Proportionate:** does not exceed what is needed in order to achieve the objective sought. This can for example be assessed through price comparison or the consideration of other measures that can achieve the same result (value for money).

**Necessary:** the expenditure item is truly necessary (indispensable) for the achievement of the results.

### **2.4.4 Used for the sole purpose of achieving the objective(s) of the project and its expected outcome(s) in a manner consistent with principles of economy, efficiency and effectiveness**

Expenditure should only be eligible if it has been incurred for the purpose of achieving the objective(s) of the relevant project and its expected outcomes.

Economy can be understood as minimising the costs of resources used for an activity (input) whilst having regard to the appropriate quality. Efficiency refers to production or delivery of something without wasting materials, time, or energy. Cost effectiveness refers to the degree to which a cost incurred contributes to attaining a specific outcome or goal.

Where new or second-hand equipment is purchased, only the portion of the depreciation corresponding to the duration of the project and the rate of actual use for the purposes of the project may be considered eligible expenditure (Reg. Art. 8.2.4)

#### **Example:**

If, in the usual accounting principles of the PP and/or project partner, a particular cost is considered as an indirect cost, then it has to be considered also as an indirect cost in the project under the EEA and Norwegian Financial Mechanisms.

When the PP and/or project partner needs to introduce changes in order to bring its 'usual' accounting practices in line with other provisions of the project contract and the Regulation (e.g. time recording practices, indirect cost calculations, productive hour's approaches etc.) it is clear that those changes are not only possible but compulsory.

### **2.4.5 Identifiable and verifiable, and properly accounted for**

Costs must be identifiable, verifiable and documented (e.g. contract, invoice, purchase order), in particular through being recorded in the accounting records of the PP and/or project partners according to the applicable accounting standards of the country where the PP and/or project partner is established, and according to generally accepted accounting principles.

Costs which are not identifiable, verifiable and properly accounted for are not eligible. If the PP opts to charge indirect costs using a flat rate these indirect costs do not need to be backed up by supporting evidence.

### **2.4.6 Comply with the requirements of applicable tax and social security legislation**

All relevant legislation on taxes and social legislation shall be complied with, e.g. taxes due under relevant legislation must be paid, and social obligations towards employees,

such as severance pay, retirement benefits, minimum wage levels, as stated in the relevant legislation shall be complied with.

## **2.5 Eligible expenditures under the fund for bilateral relations**

The eligibility of expenditures to be covered by the fund for bilateral relations is set out in Reg. Art. 8.8. Furthermore, the general principles of eligibility of expenditures set out in Reg. Art. 8.2 apply.

Allocation of bilateral funds to programmes not already made in the MoU shall be made by the Joint Committee for Bilateral Funds (JCBF). The bilateral funds are regulated by an Agreement on the Fund for Bilateral Relations concluded between the FMC/NMFA and the Beneficiary State. A brief description of the implementation, major activities to be organised and programmes of bilateral interest shall be included in the Work Plan. The Work Plan shall include information on any amounts allocated to programmes, including any amounts allocated in the MoU.

Expenditure related to activities under the fund for bilateral relations are eligible from the date of the last signature of the MoU. If a Beneficiary State receives support from both the EEA and the Norwegian Financial Mechanisms, the first date of eligibility shall be the date of the last signature of whichever MoU is signed first. The final date of eligibility of expenditures is 30 April 2025.

The disbursements of the fund for bilateral relations by the FMO shall normally take place after the Bilateral Fund Agreement has been signed. The payments will take the form of an advance payment, interim payments and payment of the final balance. The NFP shall be responsible for the use, timely disbursement, and reporting under the fund for bilateral relations.

The CA shall certify all expenditure incurred under the fund for bilateral relations and shall verify expenditure incurred directly by the NFP. The NFP is responsible for the verification of eligibility of all other expenditures. Where allocated to programmes, the eligibility of expenditure incurred in relation to the implementation of the bilateral activities shall be verified by the NFP/PO in line with the management and control systems description. Furthermore, the forecast of likely payment applications shall follow the same rules as for regular programmes (Reg. Art. 9.5).

Costs incurred by the NFP related to the preparation, evaluation, financial flow and monitoring of the fund for bilateral relations may be eligible costs for TA provided that the expenditure is proportionate and necessary (Regulations Art. 8.11.2 (a)). For the PO, expenditure related to the strengthening of bilateral relations are eligible as programme management costs provided that the expenditure is proportionate and necessary (Regulations Art. 8.10.4. (m)).

As activities to strengthen bilateral relations can be supported under both programme management costs and the fund for bilateral relations, the most appropriate funding source needs to be assessed on a case-by-case basis, depending on the national context and the size of the grants and various funds. The flexibility built into the Regulations is meant to make sure that good activities to strengthen bilateral relations are not hampered by lack of funding possibilities and that funding is available at an early stage.

For the purpose of covering expenditure of the activities referred to Reg. Art. 8.8 during the development of programmes, the FMO can make an advance payment directly to the



POs not exceeding € 50,000. Such payment shall be made in agreement with the NFP, following the designation of the PO<sup>5</sup>.

The management and control systems on national level shall clearly describe the management set-up of the fund for bilateral relations, i.e. verification of expenditure incurred, the entity responsible for verifications, and a clear description of the key functions and operations where appropriate including the role of the NFP as responsible for the use of the funds (Reg. Art. 4.6.2). The set-up and requirements of the MCS on national level are described in more detail in section 2.11.

#### **Incurred expenditure under the fund for bilateral relations**

In the context of IFRs and the Final Balance reporting, the following shall be reported as incurred expenditure:

##### Funds managed by the NFP:

- When the NFP is the beneficiary of the funds: actual incurred expenditure by the NFP is reported.
- Other bilateral initiatives granted by the NFP, e.g. selected through calls for proposals or pre-defined bilateral initiatives; the payments by the NFP to the promoters shall be reported as incurred.

##### Funds managed by the PO:

- When the PO is the beneficiary of the funds: actual incurred expenditure by the PO.
- Other bilateral initiatives granted by the PO, e.g. selected through calls for proposals or pre-defined bilateral initiatives; the payments by the PO to the promoters shall be reported as incurred.

Where allocated to programmes, funds for bilateral relations shall be managed by the relevant PO, in consultation with the DPP(s) where relevant. Decisions on the management and use of funds for bilateral relations allocated to programmes implemented in cooperation with DPPs shall be made by consensus between the PO and the DPP(s) in the Cooperation Committee. Any management costs incurred by the PO (e.g. open calls, selection of activities) in relation to the implementation of the fund may be covered under the programme management budget heading.

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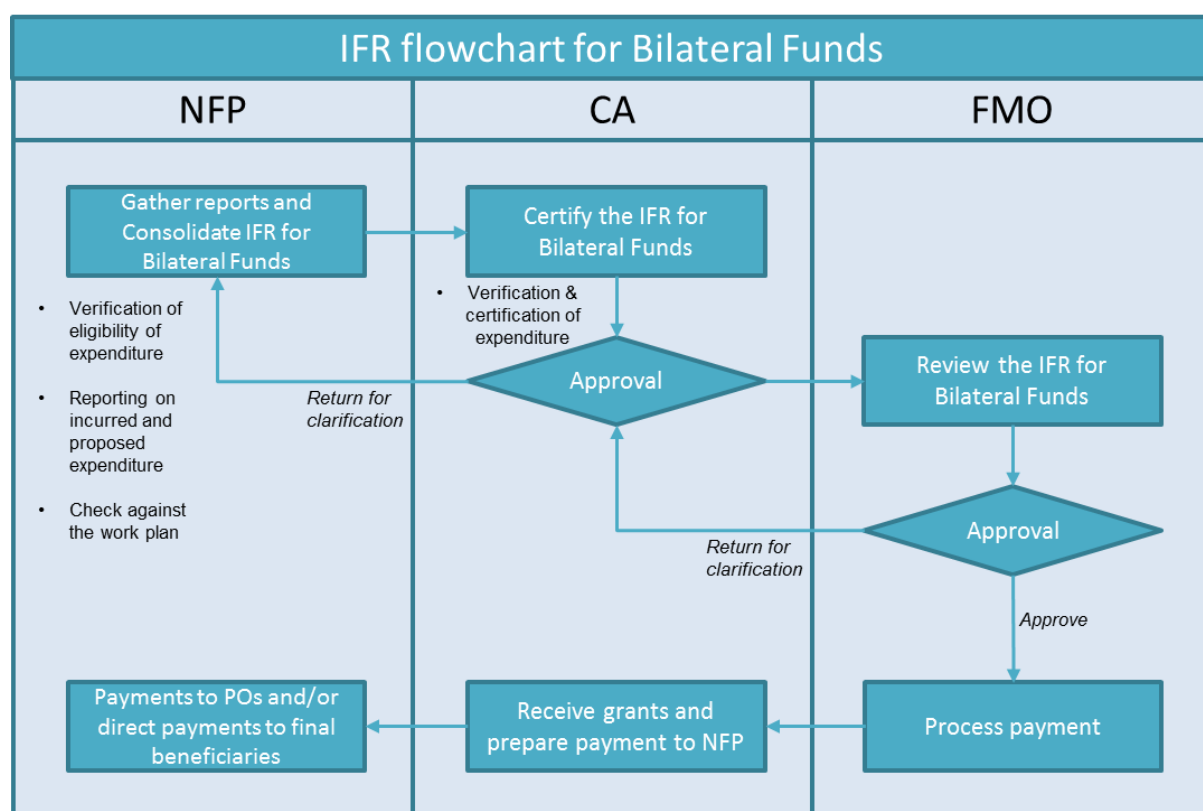
<sup>5</sup> Please refer to the 'Bilateral Guideline' for further details on eligible activities within the early phase of the programmes preparation and procedure for requesting direct advance payments.

Table 4: Budget structure

Fund for bilateral relations	
Activities carried out by the NFP	€ 500,000
Call for proposal (national level, one line for each call)	€ 400,000
Pre-defined activities (national level)	€ 600,000
Activities carried out by PO in programme XX##	€ 1,000,000
Call for proposal (programme XX##, one line for each call)	€ 500,000
Pre-defined activities (programme XX##)	€ 500,000
<b>Total</b>	<b>€ 3,500,000*)</b>

\*) a minimum of 2% of the gross allocation to the Beneficiary State, incl. Donor States' costs

Reporting on the incurred and proposed expenditure under the fund to the FMO shall be through one consolidated Interim Financial Report (IFR) for the fund for bilateral relations.



## 2.6 Eligible expenditures of a programme (Reg. Art. 8.1, 8.10)

The eligible expenditures of a programme may consist of management costs of the PO and payments to projects within the programme.

The eligibility of costs is conditional on programme approval by the FMC/NMFA and subject to limits set in the PA. The first date of eligibility of expenditures is the date on which the NFP designated the PO (Reg. Art. 5.2.3), and the final date shall be 31 December 2024 unless an earlier date is specified in the PA. The eligible programme expenditures shall be reported through the IFRs.

If the PO delegates certain tasks to other entities or, on the basis of the MoU the tasks are split between different entities, costs of the other entities can be covered as long as they fall within the eligible categories.

### **2.6.1 Management costs of the PO**

The following categories of expenditure are eligible as management costs, provided that the expenditure is proportionate, necessary and within the management cost budget stated in the PA:

1. Expenditures directly related to the preparation of the programme, including the development of the programme design, the results framework and stakeholder consultations;
2. Preparation of the implementation of the programme, including the development of procedures for project selection and financial flows;
3. Assisting possible applicants and PPs in complying with the requirements set by the PO for project applications and/or the implementation of projects;
4. Selection of projects, including costs of experts and meetings, and appeals;
5. Verification of incurred expenditure, approval of payments and transfer of payments to PPs;
6. Monitoring of projects and reviews;
7. Audits and on-the-spot verification of projects;
8. Promotional and information activities, including calls for proposals and information work during the application period as well as information events to share experiences and evaluate the impact of the programme;
9. Expenditures related to reporting obligations to the FMC/NMFA, the NFP, the CA and/or the IA;
10. Charges related to the establishment and operation of bank accounts required under this Regulation or the PA, including costs of incoming and outgoing transfers;
11. Overheads, calculated in accordance with paragraphs Reg. Art. 8.5.1 (a), (b) or (c) as appropriate, and subject to the requirements in paragraph 6 of Article 8.12;
12. Expenditures related to the operation of the Cooperation Committee in the case of donor partnership programmes and expenditures related to the operation of the Programme Committee, when required within programmes falling under the programme area "Research";
13. Expenditures related to the strengthening of bilateral relations; and
14. Activities aimed at strengthening cooperation and exchanging experience and best practices between the POs and similar entities within the Beneficiary States and/or Donor States, and/or international organisations.

The Regulations do not specifically identify trainings and improvement of professional skills in general as being eligible under the EEA/Norway Financial Mechanisms. There is a general assumption that POs should already possess the necessary skills and competences required to fulfil their role (including e.g. language skills).

In justifiable cases, however, costs of the participation of the staff in trainings aimed at improving skills in terms of performing their tasks, such as monitoring, public procurement, financial management and/or programme content-related may be considered as eligible.

Before certifying the related costs the CA should check whether there has been a proper justification concerning the participation of the staff in trainings aimed at improving skills in terms of performing their tasks, such as monitoring, public procurement, financial management and/or programme content-related.

### **2.6.2 Payments to projects within the programme**

Payments to projects within the programme are eligible expenditure if they are in accordance with the Regulations, the PA and the project contract.

## **2.7 Eligible direct expenditures of a project (Reg. Art. 8.3)**

Direct expenditures are all those eligible costs which can be attributed directly to the project and are identified by the PP and/or project partner(s) as such, in accordance with its accounting principles and its usual internal rules.

The following subsections contain categories of direct expenditures that may be considered eligible<sup>6</sup>.

### **2.7.1 The cost of staff assigned to the project**

The cost of staff assigned to the project, comprising actual salaries plus social security charges and other statutory costs included in the remuneration, provided that this corresponds to the PP's and project partner's usual policy on remuneration.

Only the costs of the actual hours worked by the persons directly carrying out work under the project may be charged. Working time is the total number of hours, excluding holidays, personal time, sick leave, or other allowances. Working time should be recorded throughout the duration of the project by timesheets or suitable time recording system, adequately supported by evidence of their reality and reliability.

The following principles should also be taken into consideration:

- The existence of the employment/work contract or an appointment decision. If a staff member is employed to work exclusively on the project (100%, full-time), a clear reference to the project should be included in the contract/appointment decision to avoid any ambiguities. In that case the time sheets might not be required;
- Overtime may be accepted provided that is necessary to the project, in line with the PP's and project partner's usual policy, in line with the national legislation. Systematic overtime payments are not in line with the Regulations' requirements for proportionality and sound financial management set out in Reg. Art. 8.2.2;
- Overheads, daily allowances and any other travel related costs cannot be included under this expenditure category;

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<sup>6</sup> In exceptional and duly justified cases, the PO may suggest additional expenditures to be eligible or exclude some. Any deviation, if approved by the FMC/NMFA, shall be explicitly stipulated in the PA.

- Any additional benefits (e.g. monthly transport costs) must be directly linked to the salary payments and incurred and paid by the PP and/or project partners in accordance with the employment contract or relevant national legislation.

**Example:**

Total days in a year	365
Weekends	-104
Annual holidays	-21
Statutory holidays	-15
Illness / Other	-15
Workable days in a year	210
Total productive hours	210 x 7.5 hours = 1,575 hours
Total salary (statutory costs, including holiday pay, etc.)	€ 30,000 / year
Hourly rate	€ 30,000 / 1 575 = € 19 per hour
Total hours worked for the project	650
Total costs charged to the project	650 x €19 = € 12,350

Statutory costs include social security and other (usual) allowances.

Corresponding salaries costs of staff of national administrations are eligible to the extent that they relate to the cost of activities that would not be carried out if the project was not undertaken.

### **2.7.2 Travel and subsistence allowances for staff taking part in the project**

Below are some elements that apply to travel and subsistence costs:

- 1) Travel must be clearly linked to the delivery of the project and carried out by the staff of the PP and/or project partner;
- 2) Direct payment by individuals must be supported by a proof of reimbursement;
- 3) Any expenditure item covered by the daily allowance cannot be eligible in addition to the daily allowance;
- 4) Having regard to the principle of proportionality, the amount of travel costs including subsistence allowances may be calculated as a lump sum, on the basis of defined rules approved by the PO;
- 5) The principle of sound financial management should apply to the choice of transport and accommodation;
- 6) Travel and accommodation costs of external experts and service providers is not included under this heading, but under costs entailed by other contracts awarded by a PP for carrying out the project;
- 7) A proof of expenditure for costs incurred shall be available (e.g. invoice of travel agent, plane tickets, e-tickets, boarding pass, meal receipts, list of participants, minutes, agenda etc.). For lump sums see section 3.4.

### **2.7.3 The cost of new or second-hand equipment**

Depreciation of equipment (new or second-hand) as recorded in the accounting statements of the PP and/or project partner(s) is eligible provided that the asset has been purchased in accordance with the relevant conditions in the project contract and written off in accordance with the international accounting standards and the usual accounting practices

of the PP and/or project partner. Only the portion of the depreciation corresponding to the duration of the project and the rate of actual use for the purposes of the project may be considered eligible.

If the equipment (new or second-hand) has not yet been fully depreciated the remaining depreciation (according to the amount of use, in percentage and time) can be eligible under the project.

In case the PO determines that the equipment is an integral and necessary component for achieving the outcomes of the project, the entire purchase price of that equipment may be eligible. The following conditions apply (Reg. Art. 8.3.2):

**Example:**

A PP has a piece of equipment that is depreciated over five years, and at the start of the project has already been using it for two years. Assuming that the equipment is used 100% for the project, the last three years of the equipment's useful life form an eligible cost of the project (assuming the project lasts for those three years).

The PO shall ensure that the PP

- 1) Keeps the equipment in its ownership of the PP for a period of at least five years following the completion of the project and continues to use that equipment for the benefit of the overall objectives of the project for the same period;
- 2) Keeps the equipment properly insured against losses such as fire, theft or other normally insurable incidents both during the project implementation and for at least five years following the completion of the project;
- 3) Sets aside appropriate resources for the maintenance of the equipment for at least five years following the completion of the project.

The specific means of implementation of this obligation shall be specified in the project contract. In case equipment for which the entire purchase price is considered eligible is in the ownership of a project partner, the project partner should comply with the above conditions. The PO may release any PP from the obligations above with respect to any specifically identified equipment, where the PO is satisfied that, having regard to the all relevant circumstances, continued use of the equipment for the overall objectives of the project would serve no useful economic purpose (Reg. Art. 8.3.2).

#### **2.7.4 Purchase of land and real estate**

Purchase of land not built on and real estate are eligible if compliant with the conditions set out in Reg. Art. 8.6.:

- a) There shall be a direct link between the purchase and the objectives of the project;
- b) Purchase of real estate and/or land may not represent more than 10% of the total eligible expenditure of the project, unless a higher percentage is explicitly authorised in the PA and set in the decision to award the project grant;
- c) A certificate shall be obtained prior to the purchase from an independent qualified evaluator or duly authorised official entity confirming that the purchase price does not exceed the market value and that it is free of all obligations in terms of mortgage and other liabilities, particularly in respect of damage related to pollution. In case of purchase of real estate, the certificate must either confirm that the building in question is in conformity with national regulations, or specify what is not in conformity with national regulations but which is to be rectified by the PP under the project;
- d) The real estate and/or the land shall be used for the purpose and for the period specified in the decision to award the project grant. The ownership must be transferred

to the PP, or those explicitly designated by the PP in the project application as recipients of the real estate and/or the land, prior to the completion of the project. The real estate and/or the land cannot be sold, rented, or mortgaged within five years of the completion of the project, or longer if stipulated in the project contract. The NMFA may waive this restriction if it would result in an unreasonable burden on the PP;

- e) The real estate and/or land may only be used in conformity with the objectives of the project. In particular, buildings may be used to accommodate public administration services only where such use is in conformity with the objective of the project; and
- f) The purchase of real estate and/or land shall be explicitly approved by the PO prior to the purchase, either in the project contract or by a later decision.

#### **2.7.5 Costs of consumables and supplies**

Costs of consumables and supplies are eligible provided that they are identifiable and assigned to the project.

#### **2.7.6 Costs entailed by other contracts awarded by a PP for project purposes**

Where the implementation of the project requires the use of contracts, the partner(s) must comply with the applicable (national and EU) public procurement legislation and with the respective provisions of the Regulation.

Sub-contracting refers to contracts concluded for the externalisation of specific tasks or activities which form part of the project as described in the proposal. Such contracts must satisfy the conditions applicable to any contracts following the procurement procedures.

#### **2.7.7 Costs arising directly from requirements imposed by the project contracts**

Eligible costs arising directly from the requirements imposed by the Project Contract may include dissemination activities, report by an independent auditor, etc., provided that the corresponding services are purchased in accordance with the applicable rules on procurement.

#### **2.7.8 Other categories of direct expenditure that may be considered eligible**

With reference to Reg. Art. 8.3.3, the PO may, in exceptional and duly justified cases, suggest additional expenditure to be eligible or exclude certain expenditure listed above. Such deviations, if approved by the FMC/NMFA, shall be explicitly stipulated in the PA.

### **2.8 Indirect costs in projects (Reg. Art. 8.5)**

Indirect costs are not directly attributed to the project but can be identified and justified by the project partner's accounting system as being incurred in direct relationship with the eligible direct costs attributed to the project<sup>7</sup>. The following methods for indirect cost identification are foreseen in Reg. Art. 8.5.1:

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<sup>7</sup> E.g. costs connected with infrastructures and the general operation of the organisations such as water/gas/electricity, maintenance, insurance, supplies and petty office equipment, communication and connection costs, postage, etc. and costs connected with horizontal services such as administrative and financial management, human resources, training, legal advice, etc.

- 1) Based on actual indirect costs for those PPs and project partners that have an analytical accounting system;
- 2) A flat rate of up to 25% of total direct eligible costs, excluding direct eligible costs for subcontracting and the costs of resources made available by third parties<sup>8</sup> which are not used on the premises of the PP or project partner. The rate has to be calculated on the basis of a fair, equitable and verifiable calculation method or a method applied under schemes for grants funded entirely by the Beneficiary State for similar types of project and PP;
- 3) A flat rate of up to 15% of direct eligible staff costs without there being a requirement for the PO to perform a calculation to determine the applicable rate;
- 4) A flat rate applied to direct eligible costs based on existing methods and corresponding rates applicable in European Union policies for similar types of project and PP (*For example, under Horizon 2020*);
- 5) In case of PP or project partners that are international organisations or bodies or agencies thereof, indirect costs may, in line with specific provisions in the PA, be identified in accordance with the relevant rules established by such organisations.

The method of calculating the indirect costs and their maximum amount shall be determined in the project contract and in the partnership agreement between the PP and project partner.

The POs should think through the use of the indirect cost method at the early stage of the Programme preparation.

In justified cases, the PO may restrict the eligibility of indirect costs. Such restrictions would require approval by the FMO and shall be explicitly stipulated in the PA.

## **2.9 Standard scales of unit costs (Reg. Art. 8.4)**

Project grants may take the form of standard scales of unit costs and established in one of the following ways:

- 1) In accordance with the rules for application of corresponding scales of unit costs applicable in European Union policies for similar types of project and entities involved;
- 2) In accordance with the rules for application of corresponding scales of unit costs applied under schemes for grants funded entirely by the Beneficiary State where the PP or partner is located, or the Donor State where the dpp is located, for similar types of projects and entities involved.

A case-by-case examination on the possibility to re-use existing rates and approaches developed for other EU Programmes and national grants is necessary. When re-using an existing method, the POs should ensure that the totality of the method is applied, and that the method will be applied to similar types of projects and entities involved.

The method to be applied, the scope of their use (i.e. the category of projects and activities for which they will be applied) and the conditions for payment should be considered by the POs at an early stage of the programme preparation and published in the document setting out the conditions for financing, e.g. in the open call text.

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<sup>8</sup> Third parties: organisations/individuals that are involved in a project but have not signed the project contract. Depending on the PP needs, third parties can be directly involved in the implementation of the project tasks or not.



Their use, amount and the way they are established should be determined in the project contract and stipulated in the partnership agreement between the PP and the project partner.

When deciding to use standard scales of unit costs, the PO should pay attention to:

**Example:** of grant support to travel costs (Erasmus+ Programme):

1) Certain types of projects in the field of R&D and innovation often involve personnel costs as a key element. The application of standard scales of unit costs is expressed in this case as an hourly rate applied to hours effectively worked by the staff. It is defined in advance in the document setting out the conditions for support that fixes the maximum amount of financial assistance as the maximum worked hours allowed multiplied by the unit cost.

Other examples which could fall under the scope:

- Costs directly linked to the subsistence of participants during the project activity (based on the duration of the stay per participant)
  - Unit costs per day of work on the project per staff category for tangible deliverables of the project (such as work materials, tools, analyses, studies, methods, etc.)
- The correlation between the realised quantities and the payments – when the quantities decrease (in comparison with the maximum initially set out), the eligible costs will decrease, independently of the underlying real cost
  - Audits and verifications should cover the correct application of the method in the individual projects (checked at PP level) and that the conditions for eligibility of expenditure on the basis of standard scales of unit costs have been fulfilled

$$\text{Unit cost} \times \text{number of units} = \text{maximum eligible cost of unit category}$$

## **2.10 Non-eligible expenditure – Excluded costs (Reg. Art. 8.7)**

Reg. Art. 8.7 provides a list of the costs which are not considered eligible and should consequently not be supported with the funds from the Financial Mechanisms:

- 1) Interest on debt, debt service charges and late payment charges (Reg. Art 8.7.2 (a))  
This means that any interest costs on loans taken, also in relation to the project, cannot be considered as an eligible cost. The same goes for any penalties/charges related to late payments of invoices.
- 2) Charges for financial transactions and other purely financial costs, except costs related to accounts required by the FMC, the National Focal Point or the applicable law and costs of financial services imposed by the project contract (Reg. Art 8.7.2 (b))  
E.g. expenses related to hedging an exchange rate by buying a forward contract locking in a future exchange rate.  
Not eligible unless required in the project contract.
- 3) Provisions for losses or potential future liabilities (Reg. Art. 8.7.2 (c))  
E.g. possible expense related to a warranty claim on a product sold
- 4) Exchange losses (Reg. Art. 8.7.2 (d) and 9.6.4)

Exchange losses are mostly relevant for non-euro countries. Please note that the FMC/NMFA cannot be held liable to pay more in euro than what they have committed to. Furthermore, a project cannot get more euro than awarded from the programme grant.

**Examples of eligibility of exchange losses:**

Not eligible:

- Losses arising due to reporting in IFRs on incurred expenditure are not eligible;
- If a project spent the full euro amount but not the whole budget in local currency, the grant paid from the programme will not support any amount beyond the project grant awarded in euro.

Eligible:

- Observed losses due to varying exchange rates within a project is normally acceptable provided this can be covered within the approved euro project grant. Internal changes to the budget sections can be treated as a change to the project cost (budget).

5) Recoverable VAT (Reg. Art. 8.7.2 (e))

This means that if a PP can recover any VAT paid at a later stage, the VAT paid cannot be considered as an eligible expenditure even if it has not yet been recovered.

6) Costs that are covered by other sources (Reg. Art 8.7.2 (f))

7) The purpose is to avoid double funding and covering costs which have already been funded by other sources and/or types of grants. E.g. if the full price of an equipment purchased previously has been funded from another grant, the depreciation of this equipment cannot be eligible within a project. Fines, penalties and costs of litigation, except where litigation is an integral and necessary component for achieving the outcomes of the project (Reg. Art 8.7.2 (g))

Any fines or penalties charged to a PP cannot be included as eligible expenditures. Examples: fines imposed by public bodies due to lack of security measures on a building site, parking fines, work accidents which result in claims on the PPs.

8) Excessive or reckless expenditure (Reg. Art 8.7.2 (h))

This must be seen in relation to Reg. Art. 8.2.2 (c) which states eligible expenditures must be "... proportionate and necessary for the implementation of the project". E.g.: buying state of the art equipment where cheaper options would cover the same needs.

**2.11 Management and Control Systems (Reg. Art. 5.1)**

Appropriate Management and Control Systems (MCSs) shall be set up to ensure that the principles of the accountability, economy, efficiency and effectiveness are respected.

The MCSs are to be set at national and programme level, described in more detail below.

When setting up the MCS, it is important that the tasks and responsibilities of each entity include descriptions of how the tasks and responsibilities are performed.

**National level MCS**

The national authorities are to set-up the systems that will ensure that they are in the position to fulfil their responsibilities in line with the Regulations.

The NFP is responsible for submitting an MCS description at the national level. The MCS shall, among other things, describe the organisational structure and the procedures of the NFP, CA, AA, IA and other national entities that are involved in the implementation of the EEA and Norwegian Financial Mechanisms or carrying out audits.

MCS at the national level shall, inter alia, describe how the NFP will carry out regular monitoring of the programmes with regards to their progress towards the programme outputs, outcome(s) and objective(s) (Reg. Art. 5.3.4). Further information on compliance-based monitoring, risk-based monitoring and results-based monitoring can be found in the Results Guideline.

The national level MCS shall be submitted to the FMO within six months of the date of the last signature of the MoU (Reg. Art. 5.7.1).

The FMO will then determine whether the description of the MCS meets the minimum requirements, before disbursing the first payment to any programme, TA or the fund for bilateral relations. This does not apply to extraordinary advance payments related to preparation costs for programmes made in accordance with Reg. Art. 8.10.8, nor to payments related to the bilateral funds made in accordance with Reg. Art. 4.6.4.

All information concerning the MCS shall be submitted electronically in accordance with Reg. Art. 5.1.3.

### **Programme level MCS**

The PO shall set up the MCS that will ensure that the PO is in the position to fulfil its responsibilities in line with the Regulations.

The MCS shall describe the system to be used for verification of expenditure, audit and monitoring of the projects. Further information on compliance-based monitoring, risk-based monitoring and results-based monitoring can be found in the Results Guideline.

It shall also describe how the PO will monitor the PP and with what frequency, where and how the monitoring information (including results-based monitoring) will be stored and organised, the system to be used to prevent and handle irregularities and establish an audit trail.

The MCS shall be submitted to the NFP for each specific programme with the description of the organisational structure and procedures. The PO shall submit within six months from the approval of the programme by the FMO to the NFP a detailed description of the Management and Control Systems (Reg. Art. 5.7.2).

The NFP needs to approve the MCS and inform the FMO of the approval of the MCS within three months of its submission to the NFP. The FMC/NMFA should be notified if the MCS has severe deficiencies that the PO cannot correct within a reasonable time frame.

The NFP shall, upon request, submit to the FMO the MCS for the PO in English, accompanied by the AA's Opinion and Audit Report. The documents shall be submitted within two months of the request. The FMO may then provide comments (Reg. Art. 5.7.4).

#### ***2.11.1 The outline of the Management and Control Systems***

The MCS shall reflect the Regulations and the PA. The description should be short but detailed enough to cover all the relevant aspects. It is important that the description is self-explanatory. This means that all references to other documents, rules or regulations must be explained properly in the MCS.

### **National level MCS**

The MCS shall, as minimum, describe the organisational structure, definitions and the allocation of functions within each entity. The MCS shall describe the functions of each entity following the principle of separation of tasks. If any tasks are delegated this shall be described in the MCS. Furthermore, the MCS shall describe the payment flows within the country, e.g. from the CA to the PO.

The description of the functions within each entity shall, as a minimum describe the following procedures for each entity:

### **National Focal Point**

The description of the functions of the NFP shall, as a minimum describe the following procedures:

- Monitoring the progress and quality of the implementation of the Programmes (Reg. Art. 5.3.3). The MCS shall describe how the monitoring of the programmes shall be carried out and how the findings of the monitoring will be reported. For more information on monitoring, please consult the Results Guideline;
- Regular monitoring of the programmes with regards to their progress towards the programme outputs, outcome(s) and objective(s) (Reg. Art. 5.3.4 and from the perspectives of results, risk and compliance (Results Guideline p. 35);
- Assessing the risks to the implementation of programmes (Reg. Art. 5.3.3);
- The role of the Joint Committee on Bilateral Funds and the NFP in the fund for bilateral relations
- Payment and reporting routines between NFP and PO for the fund for bilateral relations
- Organisation and procedures of the fund for bilateral relations. This shall comprise the detailed procedures for the financial management of the bilateral fund including payment flows, verification and certification processes.
- Appropriate division of tasks related to verification and certification of expenditures under the fund for bilateral relations

### **Certifying Authority**

The description of the functions of the CA shall, as a minimum describe the following procedures:

- Submission of interim and final financial reports (Reg. Art. 5.4.1.a). The MCS shall describe the procedures and checks performed by the CA to verify the expenditure declared by the PO, and the NFP with regards to the expenditure incurred by the NFP under the fund for bilateral relations and technical assistance (see example in table below). The procedures need to ensure that the expenditure declared is correct and regular. More details on the verification by the CA can be found in section 3.2.;

**Example of the verification of expenditure under the fund for bilateral relations**

<b>Bilateral fund</b>	<b>Type of incurred expenditure</b>	<b>Verification of incurred expenditure by</b>	<b>Verification of payments to POs/BF promoters by</b>
Managed by NFP	Incurring <u>directly by NFP</u> as beneficiary	CA	
	Incurring by <u>BF promoters</u>	NFP	CA
Managed by POs	Incurring <u>directly by POs</u> as beneficiary	NFP	CA
	Incurring by <u>BF promoters</u>	PO	CA at NFP level NFP at PO level

- Submission of a forecast of likely payment applications (Reg. Art. 5.4.1.b);
- Declaration of any interest earned (Reg. Art. 5.4.1.c);
- Taking account for certification purposes of the results of all audits carried out by or under the responsibility of the Audit Authority (Reg. Art. 5.4.1.d);
- Maintenance of accounting records in electronic form of expenditure (Reg. Art. 5.4.1.e);
- Ensuring availability of funds to the Programme Operators (Reg. Art. 5.4.1.f);
- Reimbursement of funds withdrawn and cancelled following cancellation of all or part of the financial contribution for a programme or project (Reg. Art. 5.4.1.g);
- Conversion into euro of the amounts of expenditure incurred and reported in Beneficiary States that have not adopted the euro as their currency (Reg. Art. 9.6);
- A separate interest-bearing bank account has been set up (Reg. Art. 5.4.2).

**Audit Authority**

The description of the functions of the AA shall, as a minimum describe the following procedures:

- Performance of audits to verify the effective functioning of the management and control system at the level of the Beneficiary State (Reg. Art. 5.5.1.a)
  - The report and opinion shall include a statement that the implementation system of the Beneficiary State complies with the Regulations and generally accepted accounting principles. It should also include an assessment of the proportionality of the management and control systems' requirements in relation to the effectiveness of achieving the objectives of the programmes;
- Performance of at least one audit of each programme to verify the effective functioning of its management and control system (Reg. Art. 5.5.1.b);

- Performance of audits on projects on the basis of an appropriate sample to verify expenditure declared (Reg. Art. 5.5.1.c);
- Preparing an audit strategy within nine months of the approval of the last programme (Reg. Art. 5.5.1.d);
- Submission of an annual audit report, including an opinion (Reg. Art. 5.5.1.e);
- Submission of a closure declaration assessing the validity of the application for payment of the final balance (Reg. Art. 5.5.1.f)
- The MCS shall describe procedures for conducting audits (Reg. Art 5.5.) and shall describe the procedures for annual audit reports and audit strategy.

### **Irregularities Authority**

The description of the functions of the IA shall, as a minimum describe the following procedures:

- Maintenance of Irregularities Register (Reg. Art. 12.4);
- Reporting of suspected and actual cases of irregularities together with their progress (Reg. Art. 12.5 and 12.6);
- Preventive and mitigating measures, how irregularities are detected and how the irregularities are planned to be remedied (Reg. Art. 12.3).

### **Entity responsible for complaints**

- Establishment of a complaint mechanism capable of effectively processing, examining, deciding and reporting on complaints (Reg. Art. 12.7).

### **Programme level MCS**

In general, the MCS shall, as a minimum, describe the following sections in line with the Regulations:

- 1) Organisational structure, definitions and the allocation of functions within each entity  
The organisational structure should be properly described. It is important that the division responsible for verification of financial reports/expenditures incurred is separated from the divisions responsible from the implementation of the programme. This is to ensure the independence of the project and to be in compliance with the principle of separation of functions. More details on the segregation of duties can be found in the section 3.3 under Segregation of Duties.  
The MCS shall describe the payments flows from the PO to projects;
- 2) The selection procedures  
The MCS shall describe the procedures for the selection of projects;
- 3) The procedures for verification of projects' financial reports  
The MCS shall describe the procedures for ensuring the correctness and regularity of expenditure. The verifications shall cover the administrative, financial, technical and physical aspects of the projects, and be in accordance with the principle of proportionality. The MCS can, for instance, describe the standards and procedures for the two types of verifications that can be conducted, i.e. administrative verifications (desk-based verifications) and on-the-sport verifications;
- 4) The reporting and monitoring system

The PO is responsible for annual monitoring of a sample of projects, selected based on risk assessment and including random samples (Reg. Art. 5.6.1 (i)). This procedure should be explained in the MCS Annual programme reports. In addition, the programme level MCS shall include the description of the tools to be used in monitoring, the frequency of monitoring, and how the information gathered through monitoring will be stored and organised. For more information on risk assessment and monitoring tools, please consult the Results Guideline;

- 5) The system for preventing, mitigating, detecting, reporting on and remedying irregularities

The MCS should explain in detail what are the preventive and mitigating measures, how irregularities are detected, reported and how the irregularities are planned to be remedied;

- 6) System established to maintain an audit trail of all supported activities

The MCS shall contain information about the systems and procedures to ensure an adequate audit trail. All financial records connected to the programme and the project should be stored in computerised form.

### **2.11.2 Audit Report and opinion on the MCS**

The MCS on both levels shall be accompanied by an assurance report and opinion by the AA confirming that the systems of the Beneficiary State and the PO comply with the Regulations and generally accepted accounting principles. The report shall also include a statement whether the systems' requirements are considered proportionate in relation to the effectiveness of achieving the objectives of the programmes i.e. whether the content and form of the MCS requirements does not exceed what is necessary to achieve the objectives of the programme.

In the audit report the AA shall, as a minimum (Reg. Art. 5.7.3):

- Include an audit opinion confirming that the MCS complies with the Regulation and generally accepted accounting principles;
- Include an assessment of the proportionality of the MCS requirements in relation to the effectiveness of achieving the objectives of the programmes.

## 3 Implementation phase

### 3.1 Reporting and payments (Reg. Art. 9.1)

Payments to programmes shall take the form of advance payments, interim payments, and payments of the final balance. The underlying principle is that requests for advance instalments may be submitted throughout the implementation period in order to pre-finance estimated future expenditure. The POs are at the same time requested to provide reports on the use of previously received funds to cover actually incurred expenditure within the programmes.

Payments to programmes will be made when all relevant conditions for payments stipulated in the PA and the Regulations have been fulfilled. Payments to programmes will be calculated by applying the co-financing rate laid down in the PA<sup>9</sup>. The principle of pro rata financing shall apply, meaning that the payments of the programme grant from the FMO shall be matched within one month by payment from the entity or entities responsible for providing co-financing.

Up to 10% of the management cost allocation to the programme may be retained until the FPR has been approved by the FMO. The 10% retention will be calculated over the total management cost allocation, not from the proposed management costs within each IFR.

Payments from the FMO to entities in the Beneficiary States will be denominated and carried out in euro. The payments from the FMO shall be made available to the PO within 15 working days.<sup>10</sup>

**Example:**

*Table 5: Management cost allocation*

Budget heading	EEA	Co-Fin	Total
Programme Management	€ 850,000	€ 150,000	€ 1,000,000

- Co-financing for this programme is 15%
- Amount retained for final balance 10%: € 100,000
- Until the Final Programme Report has been approved, the payments to the programme for programme management are limited to: € 900,000
- The 10% retention is not calculated over each advance and interim payment to the programme

#### 3.1.1 Pre-financing model at the programme level

The general rule is that the grants are paid out by the FMO in the form of advance instalments to PO on the basis of:

- Expenditure incurred directly by the PO;
- Amounts paid to projects and effected by the PO in the form of bank transfers; i.e. disbursed amounts;

<sup>9</sup> For more information on grant rates/co-financing see section 2.2 of this guidance document.

<sup>10</sup> Subject to contrary provisions in national law.



- The future cash needs of the PO, taking into account the funds previously received, reported incurred expenditure and new pre-financing requests.

Amounts disbursed by the PO to projects should not be confused with incurred project expenditure.

### **3.1.2 Advance payments (Reg. Art. 9.2)**

The PO may receive an advance payment. An advance payment must be requested during the programme preparation phase and included in the PA<sup>11</sup>. The amount of the advance shall be calculated as the part of the programme grant necessary to cover its share of justified estimated programme expenditure from the first date of eligibility of the programme until the first interim payment is due. The advance payment requested shall be broken down per budget heading (see Table 1) and a justification shall be provided.

### **3.1.3 Interim payments (Reg. Art. 9.3)**

Interim payments shall be paid based on Interim Financial Reports (IFRs) submitted by the PO, certified by the CA, and approved by the FMO as shown below. Furthermore, the FMO may also modify the amount of the interim payment if the proposed expenditure is considered to be unjustified. After the IFR has been approved by the FMO, the payment will be processed and transferred to the CA who then transfers the funds to the PO.

An information system will allow PO to submit IFRs, as well as CAs to certify reports. Each report will be customised to the specific programme, i.e. the report will contain programme specific data, such as contact details of the PO, financial information from previously submitted reports, applicable exchange rate, etc. The interface will provide all necessary explanations and guide to POs through all steps of completing and submitting the report<sup>12</sup>.

Reports shall be submitted with a pre-defined frequency, covering two reporting periods in each calendar year:

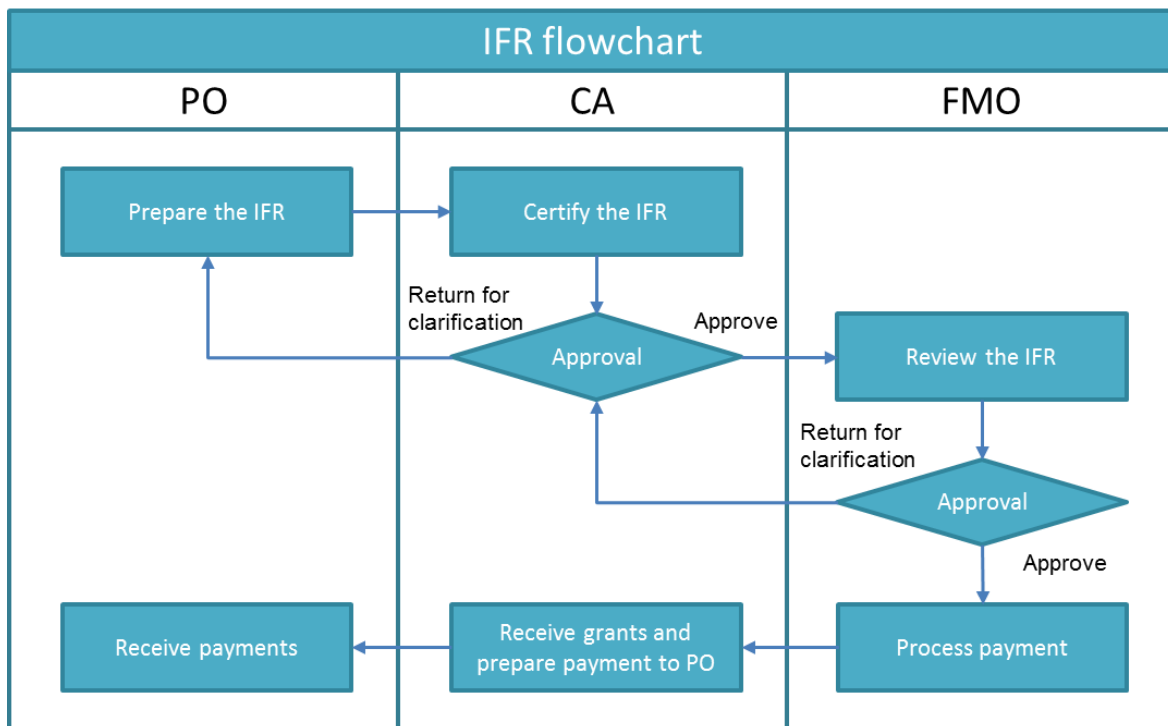
- 1) 1 January – 30 June for actual expenditure incurred and 1 November – 30 April for proposed expenditure, with a deadline for submission to the FMO on 15 September for payments to be made by 15 October;
- 2) 1 July – 31 December for actual expenditure incurred and 1 May - 31 October for proposed expenditure, with a deadline for submission to the FMO on 15 March for payments to be made by 15 April.

The purpose of the IFR is threefold. Firstly, the PO shall provide a statement of actual expenditure incurred for the reporting period preceding the submission deadline of the report (i.e. if the submission deadline is 15 September, reporting shall cover the period 1 January – 30 June). All amounts in this section shall be denominated in local currency and will be automatically converted to euro, by using the monthly accounting exchange rate of the European Commission in the month during which the expenditure was registered in the accounts of the PO of the programme concerned.

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<sup>11</sup> For more information on the PA see section 2.1 of this guidance document.

<sup>12</sup> A separate user manual describing the layout of the IFR and how this shall be completed in the information system interface will be made available.



Secondly, the PO shall provide a statement for proposed expenditure for the reporting period immediately following the submission deadline of the report (i.e. if the submission deadline is 15 September, the proposed expenditure shall cover the period 1 November – 30 April). All amounts in this section shall be denominated in euro. The FMO will disburse the grant part of the proposed expenditure, unless expenditure proposed by the PO is considered unjustified. Also, the amount of any previously disbursed, but unused funds will be taken into consideration when approving the claim.

**Example:**

*Table 6: Cash Balance Calculation*

<b>Cash Balance Calculation: 15 September IFR</b>	
Forecasted eligible expenditure for the next reporting period (1 November - 30 April)	+ € 800,000
- Previously proposed eligible expenditure till 31 October	- € 1,000,000
+ Total incurred eligible expenditure reported till 30 June	+ € 600,000
+ Forecasted eligible expenditure between 30 June - 31 October	+ € 100,000
<b>Proposed eligible expenditure for the next reporting period (1 November– 30 April) in the IFR</b>	<b>€ 500,000</b>

Thirdly, the IFR shall provide information on progress towards achieving outputs and outcomes as described in the template.

For a payment to be approved, any conditions set out in the Regulations and the PA must be fulfilled. The FMO will provide the NFP, CA and the PO with a justification of any

corrections/adjustments made to the payment request. A flow chart showing the reporting period and structure can be found in Annex 5.3.

Reporting on incurred expenditure as well as on proposed expenditure shall be broken down per budget heading as set out in PA.

IFRs received after their due date but on, or before, the following due date will be processed by the FMO as the report would have been received on its following due date. If an IFR has not been received within twelve months from the end of the reporting period in which expenditure has been incurred by the PO, the expenditure for that period will be declared ineligible and cancelled.<sup>13</sup>

In justified cases, incurred expenditure from the previous periods may be included at a later stage provided that an IFR was submitted for that previous period.<sup>14</sup> This should be explained in the IFR.

In case of discrepancies in payments which are due to rounding errors and which cumulatively do not exceed € 50 the relevant amounts shall be taken into account in the calculation of the final balance.

Please see chapter 4.1 for information about the Final Balance.

## **3.2 Certification of expenditure by the CA (Reg. Art. 5.4)**

### **3.2.1 Purpose**

Through the certification process, the CA should be able to ensure that:

- The summary of eligible expenditure submitted by the PO is in full conformity with the supporting documents;
- The supporting documents have been examined and found to be authentic, correct and accurate;
- The summary of eligible expenditure is based on verifiable accounting which is in compliance with generally accepted accounting principles and methods;
- The summary of eligible expenditure falls within eligible expenditure under the Regulation(s);
- The summary of expenditure is incurred as part of the implementation of the programme in accordance with the PA;
- Sufficient audit trail exists;
- Co-financing committed to the programme has been paid (when appropriate).

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<sup>13</sup> An example: an IFR is due 15 September 2018. This IFR covers the incurred for January – June 2018. The IFR is submitted late in July 2019. This is more than 12 months after the end of reporting period in which expenditure has been incurred i.e. June 2018. The incurred expenditure for period January-June 2018 is declared ineligible and cancelled in line with Reg. Art. 9.3.5.

<sup>14</sup> In IFR#3 part of the incurred expenditure was excluded because of a suspicion of an irregularity. This suspicion was clarified and the amount was considered eligible and consequently included as incurred expenditure in IFR#6.

### 3.2.2 Scope, procedures and records

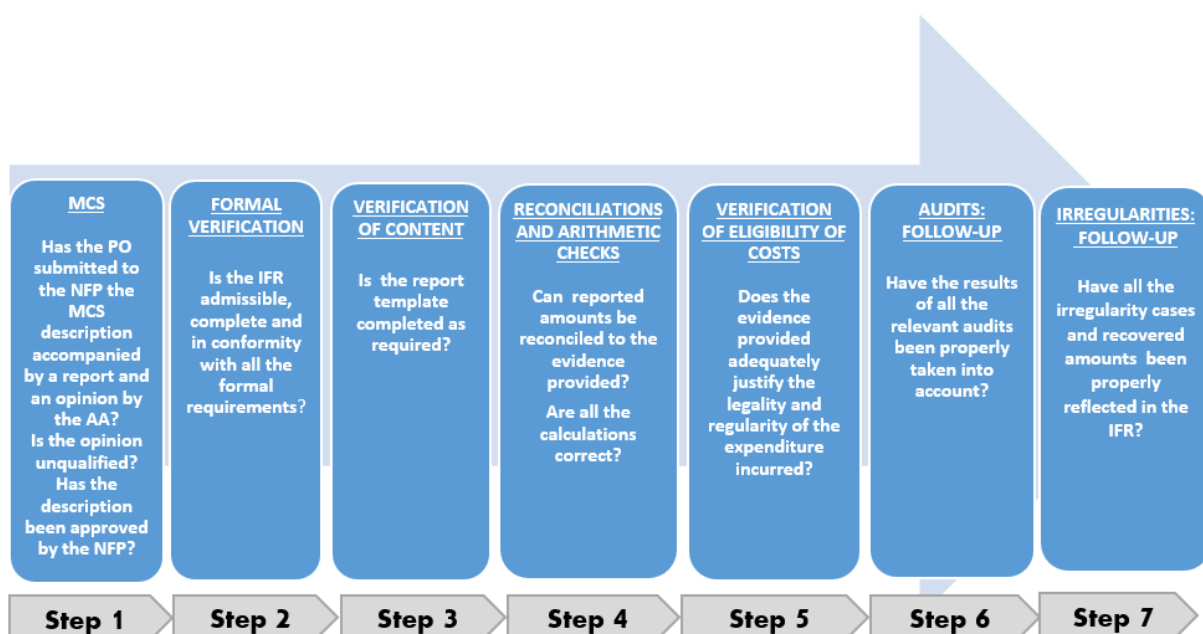
**Scope:** Expenditures reported by the PO in each IFR should be subject to the certification by the CA.

The expenditures can be:

- Directly incurred by the PO (e.g. costs declared under the programme management): in this case, a subject matter of the verification and the consequent certification is the proof of expenditure such as an invoice, bank transfer, etc. The CA, for certification purposes, should refer to section 3.3 of the Financial Guidance for more details and guidelines on expenditures verification methodology
- Of a re-granting nature (e.g. advance payments to the PPs): in this case, a subject matter of the verification and the consequent certification is limited to a bank transfer, project contract, etc.

**Procedures:** The procedures used by the CA should be set out in procedures manual, identifying which points are checked and referring to checklists to be used.

When designing the certification process, the following main questions should be taken into consideration:



**Records:** To be able to conclude that it has sufficient assurance to submit to the FMC/NMFA a certified IFR, the CA must have an adequate evidence concerning the correctness, legality and regularity of the eligible expenditure. The evidence required and procedures to ensure that the CA receives it on a regular and timely basis should be defined ex-ante in the MCS and communicated to the POs.

#### **Good practice:**

##### *IFR declaration by the PO*

The PO can be required to formally declare to the CA that the information provided is true, correct and complete, that the expenditure contained in the IFR has been subject to controls in accordance with the established MCS, and that the PO has reasonable assurance that the expenditure is free of material error.

With reference to documenting the certification process, the CA should refer to section 3.3 of the Financial Guidance for more details on the records.

### **3.3 Compliance based monitoring: verifications by the PO (Reg. Art. 5.6)**

#### **3.3.1 Purpose**

Based on the Regulations, the verifications to be carried out by the PO (compliance-based monitoring) should take a form of:

- Administrative verifications in respect of incurred expenditure reported by PPs;
- On-the-spot verifications of projects.

The verifications should form an integral part of the internal control system of the PO and, where properly implemented should also contribute to the prevention and detection of fraud.

Since a scope of the expenditure certification done by the CA does not cover costs incurred at projects' level but only funds transferred by the PO, the verifications by the PO are of a significant importance in the overall assurance process of legality and regularity of expenditures at projects' level.

#### **3.3.2 Organisational aspects**

**Resources:** The PO is responsible for planning, administering and assessing its internal capacities to identify a number and value of projects which can be appropriately managed. It should seek to have adequate human resources with an appropriate experience. In particular, the PO staff performing the verifications needs to have both: skills as a controller and knowledge of national, EU and EEA/Norway grants rules and regulations (inter alia: eligibility rules, state aid rules, public procurement rules, functioning of financial instruments). In situations where, due to a high volume or technical complexity of the project to be verified, the PO finds that it does not have sufficient staff or expertise to carry out the verifications itself, it might be appropriate to outsource some or all elements of the verifications to an external expert.

**Segregation of duties:** In order to ensure compliance with the principle of separation of functions and to avoid risks arising where the PO is responsible for (i) selection and approval of projects, (ii) verifications and (iii) payments, an adequate segregation of duties shall be ensured between these three functions. Where the PO is also a PP, the adequate segregation may be achieved, e.g. by using a separate division within the same organisation, independent of the division where the PP is located, to carry out the verifications. The staff performing the verifications shall not be involved in systems audits or audits of projects carried out under the responsibility of the AA and vice versa.

**Verifications vs audits:** The objectives of the verifications to be carried out by the PO are different from those of audits carried out under the responsibility of the AA, the latter being carried out generally ex-post. The objective of the audits is to assess whether internal controls are operating effectively whereas the verifications form a part of the internal controls. The two types of work must therefore be clearly distinguished in their planning, organisation, execution, content and documentation.

Although the verifications by the PO and the audits under the responsibility of the AA shall be separated, exchange of information between the PO, NFP, CA and AA services is necessary.

#### **3.3.3 Scope, procedures and records**

**Scope:** The PO verifications should cover administrative, financial, technical and physical aspects of projects, in particular:

- Compliance with the Regulations, the PA as well as the applicable national and EU<sup>15</sup> law (including, but not limited to, the legislation on the environment, public procurement and state aid);
- Adequacy of supporting documents and existence of an adequate audit trail;
- Compliance of incurred expenditures with all the eligibility rules;
- No double funding (when the same PP implements more than one project at the same time or receives funding under various forms of support or funds from other donors, there shall be a mechanism in place to verify potential double financing of expenditure items);
- Physical progress of the project;
- Delivery of the product or service;
- Respect of the rules on publicity and visibility (photographs of billboards, copies of promotional brochures, training course materials and diplomas may be used to provide evidence of the verification of compliance with the publicity and visibility requirements).

**Good practice:**

*To limit a potential risk of double funding:*

- Require that all invoices (or similar accounting documentation) are stamped with the project's unique number / accounting cost centre. This should also be stamped on any payment documentation relating to each invoice. **Marking them in pencil does not serve the purpose!**
- An original document is more reliable than a copy, as it is difficult to alter and offers better protection against recording the same expense item twice. Require project promoters to present you with original invoices at least during on-the-spot verifications)
- Require that staff is asked to prepare a timesheet on a weekly or monthly basis covering all projects and activities. They should record their time using actual time spent on each project activity, irrespective of what time is budgeted for that project. **Not signed and not approved timesheets do not serve the purpose!**
- Require that all staff costs are paid using bank transfers
- Require project promoters to open a dedicated bank accounts for the project if possible
- Require from project promoters a declaration on not engaging in double-funding,

**Procedures:** The standards and procedures used by the PO for carrying out the verifications should be set out in procedures manuals, identifying which points are checked during the administrative verifications and during the on-the-spot verifications respectively and referring to checklists to be used for different checks. The manuals should also include a detailed description and justification of a sampling methodology to be applied.

When the administrative verifications and on-the-spot verifications are carried out by different persons, the procedures should ensure that both receive relevant and timely information on the results of the verifications carried out.

**Records:** The PO shall demonstrate, through adequate documentation of verifications carried out, that the overall intensity of the verifications, both administrative and on-the-

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<sup>15</sup> The EC "Guidance for Member States on management verifications" related to EU law including: public procurement, environment, and state aid available at [http://ec.europa.eu/regional\\_policy/sources/docgener/informat/2014/guidance\\_management\\_verifications\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_management_verifications_en.pdf).

spot, is sufficient to give a reasonable assurance of the legality and regularity of the expenditure co-financed under the programme.

All the verifications shall be documented (e.g. in a form of checklists). The verification records should, as a minimum, include:

- A brief summary of the work performed;
- Details of the financial report/expenditure items reviewed;
- The value of checked expenditure i.e. the amount tested to source documentation;
- The results of the verifications including the overall level and frequency of the errors detected;
- A description of irregularities detected with a clear identification of the related rules infringed and the corrective measures taken (follow up action may include the submission of an irregularity report and a procedure for recovery of the funding);
- The name and position of the person performing the verification;
- The date and signature.

#### **Good practice:**

##### *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. To be useful, 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 has been verified. Instead, a list of each of the eligibility points verified should be detailed with a 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). In the case of public procurements, it is recommended to have detailed checklists which cover the key risks in the procurement procedure. 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.

To serve the purpose, as a minimum, the checklist should include questions on:

- All general eligibility criteria listed in the Regulations and the specific criteria for each type of expenditure, including indirect costs
- The identification of ineligible expenditure as defined in the Regulations

### **3.3.4 Administrative verifications in respect of incurred expenditure reported by PPs (Reg. Art. 5.6.2 (i))**

Administrative verifications in respect of incurred expenditure reported by PPs are desk-based documentary examinations of the financial reports and relevant supporting documentation – a proof of expenditures (e.g. invoices, proofs of payment, timesheets, presence lists, proofs of delivery, bank statements, etc.). The main principles of the administrative verifications are:

- Each financial report submitted by the PP should be verified by the PO before it is approved;
- The documents to be submitted by the PP with each report should be comprehensive in order to enable the PO to verify the legality and regularity of the expenditure. The supporting documentation required might 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 and list of contracts signed (if applicable). Moreover, ideally, electronic invoices and payments or



copies of invoices and proof of payment should be provided for all expenditure items. However, where this would involve a large volume of documentation, an alternative approach might involve requesting only the supporting documentation in respect of a sample of expenditure items selected for the detailed review as explained below;

- In a case of a large volume of transactions/supporting documents accompanying the financial reports, it is advisable to focus verifications on samples of transactions/items, selected based on risk factors;
- The sampling methodology used and a reasonable percentage of declared project expenditures to be verified against the proof of expenditure (per each risk level) shall be established ex-ante by the PO, described and justified in the MCS description;
- In case that serious errors are found in the sample tested, it is recommended to extend the testing to determine whether the errors have a common feature (i.e. type of transaction, location, product, period of time) and then either extend the verifications to 100% or project the error in the sample to the unchecked population;
- The best practice is to verify a compliance with the public procurement procedures during the administrative verifications. It is recommended, to verify all contracts above the EU thresholds and a sample of contracts below the thresholds selected using a risk-based approach.

**Good practice:**

*Sampling - proof of expenditure*

The following risk factors can be taken into account when selecting a sample of transactions/items for a detailed review:

- A type of a PP/project
- A value/type of expenditure items
- A type of physical progress indicators
- The past experience (e.g. a number and gravity of problems identified when reviewing previous reports from the PP)
- Control procedures in place at the PP level, (BUT this does not replace / substitute the PO verifications)

The sample selected based on the risk factors should be complemented by a random sample of invoices/transactions to ensure that all items have a probability to be selected.

**3.3.5 On-the-spot verifications of projects (Reg. Art. 5.6.2 (ii))**

Where the administrative verifications are exhaustive and detailed, there are still some elements concerning the legality and regularity of expenditure that cannot be verified through desk-based checks.

On-the-spot verifications should be carried out in order to check in particular:

- The reality/physical existence of the project;
- Delivery of the product or service in full compliance with the project contract;
- Physical progress;
- Compliance with the rules on publicity and visibility, etc.;
- Existence of original supporting documents (especially when the same PP implements more than one project at the same time or receives funding from other donors);
- Accuracy of information regarding the physical and financial implementation of the project submitted by the PP.



The intensity, frequency and coverage of on-the-spot verifications should be proportionate to the financial support and to risks identified. On-the-spot verifications may be carried out on a sample basis. Where sampling is used for the selection of projects for on-the-spot verifications, the PO shall keep records describing and justifying the sampling method and a record of projects selected for verification. No project shall be excluded from the possibility of being subject to an on-the-spot verification. The sampling methodology used and a reasonable percentage of project to be verified on-the-spot shall be established ex-ante by the PO and described in the MCS.

**Example:**

If the PP is a government ministry and checks on the expenditure have already been carried out by a separate part of the ministry as part of their own control procedures (i.e. with appropriate segregation of functions), the PO may treat them as contributing to the assurance to be obtained, whilst still being responsible for carrying out the verifications. The checks carried out directly by the PP cannot be considered to be the equivalent of the verifications falling under Reg. Art. 5.6.2.

**Good practice:**

*Sampling – projects*

The following risk factors can be taken into account when selecting a sample of projects for on-the-spot verifications:

- Complexity of the project
- The amount of public support
- The extent of detailed checks during the administrative verifications
- The level of risk identified during administrative verifications (i.e. problems, irregularities, particular transactions that appear unusual and require further examination)
- AA Audits
- Control procedures in place at the PP level

A random sample of projects should be selected as a complement.



Where problems are identified in the on-the-spot verifications from the random sample, the size of the sample should be increased in order to determine whether similar problems exist in the unchecked projects.

For a selection of the expenditure items to be verified within each project the same rules apply, as for the administrative verifications.

Generally, the notification of the on-the-spot verifications should be given in order to ensure that the relevant staff (e.g. project manager and accountant) and documentation (in particular, financial records including bank statements and original invoices) are made available during the verification. However, in some cases (e.g. suspected fraud, risk that documents will be forged, etc.), it may be appropriate to carry out on-the-spot verifications without a prior notice.

### **Timing of on-the-spot verifications:**

The nature, specific characteristics of a project, amount of public support, risk level and the extent of administrative verifications, will often influence the timing of on-the-spot verifications. In general, it is recommended to carry them prior to the project completion to enable corrective action in case problems are identified and to avoid that irregular expenditures are approved.

Where the same forms of support are awarded following an annual call for expressions of interest, on-the-spot verifications carried out in the first year should help to prevent recurrence of problems in later years.

The recommended timing is:

- Normally, when the project is well under way (physical and financial progress)
- Projects of intangible nature: during project implementation to attest reality of activity
- Projects for which the entire purchase price of an equipment item was allowed by the PO: an additional verification after project's completion should be considered in order to verify compliance with additional obligations as stipulated in the Reg. Art. 8.3.2
- Multiannual infrastructure projects: at various occasions, with initial visit to ensure preventive effect; final visit after completion of investment to verify the reality of the project

Visits of projects as a preventive measure to verify the capacity of an applicant do not replace the on-the-spot verifications of projects selected for funding.

### **3.4 Proof of expenditure (Reg. Art. 8.12)**

The main rule is that all the costs incurred by the PO, PP and project partners need to be supported by receipted invoices or alternatively by accounting documents of equivalent probative value to be considered eligible under the grant agreement (Reg. Art. 8.12.1).

However, this does not mean that the PO is obliged to set up a system which involves that all the invoices or accounting documents are required to be submitted each time a PP submits a financial report. The Regulations oblige the PO to set up a system and control mechanism which ensure a sufficient level of control over the expenditure that is incurred by PP or a partner. However, within this requirement there is a reasonable amount of flexibility as long as certain fundamental aspects are fulfilled. The PO should take into account the proportionality (e.g. audit costs vs. the incurred expenditure to be certified) and request the proof of expenditure accordingly (this could be e.g. once a year).

When required to submit proof of expenditure the PPs and project partners may also opt for a report by an independent auditor qualified to carry statutory audits of accounting documents. It is also possible to opt for a certificate issued by a competent and independent public officer.<sup>16</sup> This officer needs to be recognised by the relevant national authorities as having a budget and financial control capacity over the entity incurring the costs. In addition, this public officer needs to be independent meaning that he/she hasn't been involved in the preparation of the financial statements (financial reporting). The auditor/public officer is there to certify that the reported costs are incurred in accordance with the Regulation, the national law and relevant national accounting practices. This

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<sup>16</sup> A template for certification of costs claimed by donor partner is attached as an annex to the Bilateral Guideline. The template is also annexed to this document (Annex 5.4).

report shall be accepted as sufficient proof of incurred expenditure that will be submitted to the PO. It should be noted that the PO may decide to apply this option of report only to projects partners who are located in another Beneficiary State or Donor State or who are inter-governmental organisations. This would mean that the PPs and project partners in the respective Beneficiary State would need to submit the supporting documents and would not have an option to submit report instead.

The supporting documents need to be in place and available even if it is not required to be submitted alongside the individual financial report. This is to ensure a proper audit trail to track the use of money. The proof is needed also in case the programme/project(s) are audited.

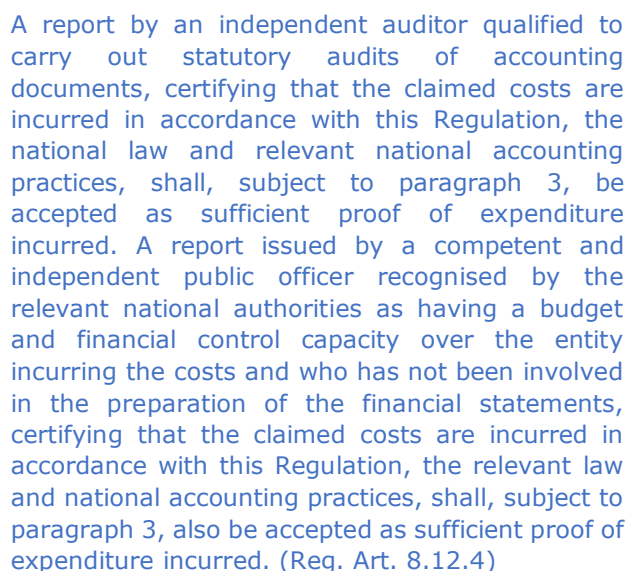
In case of flat-rate costs, lump sums and unit costs there is no need to support the costs by invoices or accounting documents (the flat-rate is agreed on in the project contract).

When using lump sum for travel costs the proof of expenditure is limited to the relevant units. There is no need to justify the real costs; thus, expenditure reimbursed on the basis of a lump sum does not need to be substantiated by proper evidence allowing identification and checking of individual cost items. However, for the lump sum to be eligible there should be the evidence of the travel occurrence (e.g. signed meeting attendance participants' list), incurred within the eligibility period, absence of double declaration etc. (Reg. Art. 8.12.7, see also section 2.8).

For the standard scales of unit costs the proof of expenditure is limited to the proof of the relevant units (Reg. Art. 8.12.7, see also section 2.9).

### **3.4.1 Auditors' certificates (Reg. Art. 8.12.4)**

Project contracts and/or partnership agreements may include an option for the PP or projects partner to provide a proof of expenditure by way a report by an independent auditor or a competent and independent public officer<sup>17</sup> certifying that the reported costs are incurred in accordance with this Regulation(s), the national law and relevant national accounting practices. These reports vary upon the scope of the work carried out by the auditor but generally cover basic requirements such as a confirmation that:



A report by an independent auditor qualified to carry out statutory audits of accounting documents, certifying that the claimed costs are incurred in accordance with this Regulation, the national law and relevant national accounting practices, shall, subject to paragraph 3, be accepted as sufficient proof of expenditure incurred. A report issued by a competent and independent public officer recognised by the relevant national authorities as having a budget and financial control capacity over the entity incurring the costs and who has not been involved in the preparation of the financial statements, certifying that the claimed costs are incurred in accordance with this Regulation, the relevant law and national accounting practices, shall, subject to paragraph 3, also be accepted as sufficient proof of expenditure incurred. (Reg. Art. 8.12.4)

- The expenditure has been incurred within the eligible period and is in line with the eligibility rules;

- It relates to items approved under the project contract;
- Terms of the contract have been complied with and that adequate supporting documentation, including accounting records, exists.

In case of the report **by an independent auditor**, it is essential that the PO provides guidance on the scope of the work to be done and an indicative template of the report which should not be simply a one sentence certificate on the regularity of the expenditure, but should describe the purpose, procedures and results of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed.

The International Federation of Accountants (IFAC) has issued an International Standard on Related Services (ISRS) 4400 "Engagements to perform agreed-upon procedures regarding financial information" which establishes standards and provide guidance on the auditor's professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement. This type of agreed-upon procedure could be used for this purpose.

The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and any appropriate parties have agreed and to report on factual findings. Matters to be agreed include:

- The nature of the engagement;
- The purpose of the engagement;
- The identification of the financial information to which the agreed-upon procedures will be applied;
- The nature, timing and extent of the specific procedures to be applied;
- The anticipated form of the report of factual findings.

The ISRS 4400 also sets out useful templates for engagement letters and for reports on factual findings<sup>18</sup>.

The annually audited financial statement of an entity cannot replace the specific auditor's report as foreseen in Reg. Art. 8.12.4.

### **3.5 Interest Earned (Reg. Art. 9.7)**

Any interest earned on the following accounts shall be regarded as a resource for the FMC/NMFA and needs to be declared annually:

- 1) Accounts held in the Beneficiary State on which funds from the FMC/NMFA are kept until they are transferred to the PO;
- 2) Accounts established by the PO for funds intended for re-granting (Reg. Art. 5.6.1 (m)) unless subject to contrary provisions of the national law of the Beneficiary State.

The CA shall annually declare any interest earned as part of the IFR after verifying the correctness of the declared interest. In the final balance the total interest earned until the date of the FPR is reported and calculated as one part of the Final Balance (see 4.1 Final balance).

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<sup>18</sup> A template for certification of costs claimed by donor partner is attached as an annex to the Bilateral Guideline. The template is also annexed to this document (Annex 5.4).

Beneficiary States who have not adopted the euro as their currency and use accounts held in national currency shall convert the interest earned into euros using the average of the monthly accounting exchange rates of the European Commission.

### **3.6 Forecast of likely payment applications (Reg. Art. 9.5)**

Forecast of likely payment applications shall be submitted to the FMC/NMFA four times a year according to Reg. Art. 9.5. The updated forecast shall be submitted at the latest by 20 February, 20 April, 20 September and 20 November each year. The CA shall send the forecast, in a format provided by the FMC/NMFA (Annex 8 of the Regulation), a justified forecast of likely payment applications from the Beneficiary State. One of the responsibilities of the PO, according to Reg. Art. 5.6.1 (r) is to submit the updated forecast applications to the CA as this is necessary for the CA to fulfil its obligations in accordance with Reg. Art. 9.5.

For the processing and submission of the forecast, the following points should be adhered to:

- 1) During the current year the estimated total payment application for that year should be submitted, including already paid amounts in the year;
- 2) The forecast should include justifications for the forecast e.g. explanations on any changes from previous forecast;
- 3) The forecast shall include estimated payment applications for each programme and year, including the current year;
- 4) Each forecast should be updated and reviewed carefully as this input is important for the FMC/NMFA.

### **3.7 DPPs/IPOs participation in programmes/projects**

DPPs and International Partner Organisations (IPOs) are organisations which are involved in the implementation of programmes, where they will be working in partnership with the PO.

Costs of the IPO's and DPP's role as outlined in the Regulations will be covered from the Donor States' costs and the FMO will enter into a contract with these organisations to cover their costs.

The DPPs/IPOs can be eligible for parts of the PO management costs, in particular when it comes activities aimed at strengthening bilateral relations and experience sharing (Reg. Art. 8.10.3 (m)/(n)). The DPPs/IPOs will in this case have to provide proof of the expenditure as required by the PO/CA, in-line with Reg. Art. 8.12/13. Furthermore, the DPPs/IPOs are also eligible applicants under the bilateral fund.

When DPPs/IPOs are involved in projects as project partners, the costs should be covered from the project grant. The eligibility of expenditures for projects in Reg. Art. 8.3/4 shall be applied, as well as the requirement regarding proof of expenditure in Reg. Art. 8.12/13.

### **3.8 Audit Strategy (Reg. Art. 5.5.1 (d))**

The Audit Strategy should, at least, include the elements described in the subsections below.

#### **3.8.1 Mandate**

The AA should have a clear mandate to perform the audit function in accordance with Reg. Art. 5.5. This mandate is usually documented in an audit charter/statute if the mandate is not already set out

in national legislation. Where an audit charter exists for the audit function as a whole, the mandate specifically related to the function of the AA should be incorporated in that charter and should be formally accepted by the AA. A strong audit charter helps increase the independence of the AA.

The Audit Authority shall be responsible in particular for preparing within nine months of the approval of the last programme an audit strategy. The audit strategy may cover more than one programme. The audit strategy shall set out the audit methodology, the sampling method for audits on projects and the indicative planning of audits to ensure that audits are spread evenly throughout the programming period. The audit strategy shall be updated annually as appropriate. The Audit Authority shall submit the audit strategy to the FMC/NMFA in English upon request within one month. The FMC/NMFA may provide comments (Reg. Art. 5.5.1

#### **3.8.2 Independence**

The strategy should include confirmation by the AA that the bodies carrying out audits pursuant to Reg. Art. 5.5 have the requisite functional independence. Independence is the freedom from conditions that threaten the ability of the AA to carry out its responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out its responsibilities, the AA must have direct and unrestricted access to senior management at all levels, including the POs, the NFP and the CA. During all stages of the audit cycle, the AA should ensure that its work is performed in an independent and objective manner, free of conflict of interests with the audited entity. Functional independence implies a sufficient degree of independence to ensure that there is no risk that linkages between different authorities create doubts as to the impartiality of decisions taken. To ensure that sufficient degree of independence, the MCS should provide for measures such as the AA's staff not involved with the POs, the NFP or the CA functions, the AA's autonomy of decision on recruitment of staff, clear job descriptions and clear written arrangements between authorities. It is essential that the AA can express disagreements with the POs, the NFP or the CA and communicate in full independence its audit results to the stakeholders, in particular the FMO. The organizational placement and status of the AA may pose a practical constraint or a limit on the scope of the AA work, in particular where the AA is located in the same public body as (some of) the audited entities. In general, the higher the reporting level, the greater the potential scope of engagements that can be undertaken by the AA while remaining independent of the audited entity. At a minimum, the head of the AA needs to report to the hierarchy level within that public body that allows the AA to fulfil its responsibilities; the AA must be free from interference in determining the scope of its audit work, performing work, and communicating results.

The AA should indicate in the Audit Strategy how the mentioned functional independence is ensured, describing the relations between the AA and the NFP, the CA and POs.

### **3.8.3 Risk assessment**

The Audit Strategy should include an explanation of the risk assessment method and a reference to internal procedures for updating the risk assessment. When setting up the overall risk assessment method for prioritising the system audit work, the AA should consider the relevant risk factors, set a quantification grid from low to high risk and apply them to all bodies relating to the programme(s) covered by the strategy. Some examples of risk factors which may be considered are the following: amount, management competence, quality of internal controls, degree of change of stability in the control environment, time of last audit engagement, complexity of the organisational structure, type of projects, type of promoters, risk of fraud, etc. As a best practice, the results of the AA's risk assessment are reported in a table where the programmes and the main bodies involved in the MCS are classified by risk level. On the basis of the results of the risk assessment, the AA will be able to prioritize the system audits of programmes and bodies for which the detection risk is higher over the audit period.

### **3.8.4 Methodology**

With reference to the methodology, the Audit Strategy should contain at least the following information:

- Reference to audit manuals or procedures containing the description of the main steps of the audit work, including the classification and treatment of the errors detected;
- Reference to the internationally accepted audit standards that the AA will take account of for its audit work;
- Reference to the procedures in place for drawing up the annual audit report and audit opinion to be submitted to the FMC/NMFA (Reg. Art. 5.5.1).

The AA's audit manual should provide a description of the working procedures for the different phases of an audit, i.e. audit planning, risk assessment, performance of engagements, recording and documentation, supervision, reporting, quality assurance process and external review, using the work of other auditors, use of any computer assisted audit techniques, sampling methods used, etc. The audit manual should contain reference to materiality thresholds and other quantitative and qualitative factors to consider when assessing the materiality of audit findings for system audits and audits of projects. The audit manual should also include a description of the different phases of reporting (such as draft audit reports, contradictory procedure with the auditee and final audit reports), deadlines for reporting as well as follow-up processes which should allow the AA to conclude that appropriate and sufficient remedial actions were implemented.

### **3.8.5 Audits on the functioning of MCS (system audits)**

This section shall include indication of the bodies to be audited and the related key requirements<sup>19</sup> in the context of system audits.

The AA should have tailored checklists and work programmes for its system audits, ensuring that all key requirements and procedures are covered regularly either through

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<sup>19</sup> The key requirements should be defined by the AA based on the regulatory requirements applicable to the EEA and Norway grants.

full audits or follow-up audits, in order to enable the AA to conclude on the functioning of the MCS from the first annual audit report onwards. Concerning the frequency and scope of system audits, the AA should decide based on its risk assessment, taking account of International Standard on Auditing 330 on the auditor's responses to assessed risks. In any case, system audits should be carried out in a timely manner, in order to contribute to the adequate planning and selection of audits of projects and to the expression of the annual audit opinion.

If during implementation of the programme(s), the MCS is subject to substantial changes (e.g. modification of procedures affecting the essential key requirements), the AA should perform a new system audit of the MCS, covering the new aspects and update the risk assessment accordingly. Audits carried out in the period 2009-2014 may be used as a reference point for the AA, in particular in the risk assessment, when planning the systems audits for 2014-2021 when the MCS are similar.

However, system audits still need to be carried out in 2014-2021, which aim at assessing whether the MCS is properly functioning in this period. On site, the auditor must aim to obtain sufficient and reliable evidence that the MCS in place functions effectively and as described, in order to conclude whether those systems are adequate to ensure the legality and regularity of expenditure and the accuracy and completeness of financial and other information. Test of controls may include walkthrough tests of the relevant files held by the authorities concerned, interviews with relevant staff and examination of a sample of transactions. Taken together, sufficient testing should be carried out to enable sound conclusions to be reached on the proper functioning of the systems under examination. The actual content of each audit should be adjusted by the auditor to take account of the control environment as part of the preparation stage for the audit.

In system audits, attribute sampling is normally used to test several attributes of the population at stake. In any event, the sample selection method for system audits is a matter for the AA's professional judgment. During system audits, the AA has to test the different key internal controls established. When determining the number of items for controls testing, one should consider certain overall factors, taking account the internationally accepted audit standards (e.g. ISA 330 on the auditor's responses to assessed risks, the ISSAI 4100 on the factors to be taken when defining materiality, ISSAI 1320 on materiality in planning and performing an audit, ISSAI 1450 on evaluation of misstatements identified during the audit).

When planning a system audit, the AA should define in advance the threshold above which a deficiency will be considered material. When the system audit concludes that the deviation rate detected is higher than the materiality threshold defined by the AA for that audit, this means that the MCS does not meet the criterion set for a high assurance level. As a result, the MCS must be classified as having an average or low assurance level, with implications in the determination of the sample size of the audits of projects.

### **3.8.6 Audits of Projects**

This section shall include a description of (or reference to internal document specifying) the sampling methodology to be used in line with Reg. Art. 5.5.4, and other specific procedures in place for audits of projects, namely related with the classification and treatment of the errors detected, including suspected fraud.

Sampling method, sampling unit and the parameters for calculating the sample size should be determined by the AA based on professional judgment and taking into account the regulatory requirements and factors such as the characteristics of the population and the expectation regarding the level and variability of errors. The need for revising the sampling methodology should be assessed regularly and especially before each sampling exercise.



The confidence level for sampling is determined according to the reliability level obtained from the system audits.

### **3.8.7 Audit work planned**

This section shall include a description and justification of the audit priorities and specific objectives in relation to the current accounting year and the two subsequent accounting years, together with an explanation of the linkage of the risk assessment results to the audit work planned. A description of the criteria used to determine the audit priorities and the justification should be included. The results of the risk assessment exercise should be the main basis for prioritising the system audit work planned. It is recommended that the AA prepares a general plan for the whole programming period to cover the entire MCS in order to obtain reasonable assurance on its effectiveness, in addition to the mandatory detailed planning setting out the priorities for the current accounting year and the subsequent two accounting years.

### **3.8.8 Resources**

This section shall include an organisation chart of the AA and information on its relationship with any audit body that carries out audits as foreseen in Reg. Art. 5.5.2. Indication of planned resources to be allocated in relation to the current accounting year and the two subsequent accounting years. The audit strategy should indicate the human resources in auditor-days available (or to be mobilised) to accomplish its objectives for the coming years, including the resources of other audit bodies and outsourced audit activities.

It is recommended to indicate separately the auditor-days available at the level of the AA, other audit bodies and outsourced activities. An indication of available auditor-days per audit type (system audit and audit of projects) should be included. It is essential to provide for adequate resources from the beginning of the programming period. It is recommended to have a long-term planning so that future requirements in recruitment, training and continuous professional development can be adequately planned. The use of any specialist skills required should be identified and planned, i.e. where outsourcing is envisaged. In case the AA and audit bodies are the same as those for the programming period 2009-2014, it is important that adequate resources are also be planned with respect to the on-going programming period.

Therefore, the AA should confirm that the resources indicated are available in addition to the resources allocated to the remaining audit work for the current period, having in mind the workload for the closure of 2009-2014 programmes. In terms of audit resources, guidance is provided by the INTOSAI European Implementing Guidelines N° 11 and the IIA standards.

### **3.9 Annual audit reports and audit opinion (Reg. Art. 5.5.1 (e))**

The annual audit report (AAR) and the audit opinion (AO) by the AA is an important element through which the FMC/NMFA obtain reasonable assurance on the proper functioning of the MCS in the Beneficiary States, the legality and regularity of the expenditure declared and the accuracy, completeness and veracity of the accounts. The AA should carry out all the audit work necessary to draw a valid audit opinion for each accounting year.

In case of any irregularities detected by the AA, these should be reported by the IA to the FMC/NMFA in accordance with the Regulation and in a format provided by FMC/NMFA.

The AAR should, at least, include the elements described in the subsections below:

#### **3.9.1 Introduction**

- Reference period (i.e. the accounting year);
- Reference to the version of the audit strategy applicable;
- Audit period (during which the audit work took place);
- Identification of the programme(s) covered by the report and of its/their PO(s);
- Description of the steps taken to prepare the report and to draw the audit opinion (preparatory phase, documentation analysed, coordination with other bodies (if applicable), audit work conducted and drawing up of the audit opinion).

#### **3.9.2 Significant changes in management and control systems**

- Details of any significant changes in the management and control systems related with responsibilities of authorities involved both at national and programmes' level. Significant changes refer to changes which could have an impact on the proper functioning of the MCS and the level of assurance they provide. It is expected that the AA confirms, that these modifications do not affect the conclusions of the opinion previously issued based on Reg. Art. 5.5.1 (e);
- The dates from which these changes apply as well as the impact of these changes to the audit work are to be indicated.

By 15 February each year from 2019 to 2025, The Audit Authority shall be responsible for:

(i) submitting to the FMC/NMFA an annual audit report setting out the findings of the audits carried out during the previous 12 month-period ending on 31 December of the year concerned in accordance with the audit strategy of the programme and reporting any shortcomings found in the systems for the management and control. The first report to be submitted by 15 February 2019 shall cover the period up to 31 December 2018. The information concerning the audits carried out after 1 January 2025 shall be included in the final audit report supporting the closure declaration referred to in point (f)

(ii) issuing an opinion to the FMC/NMFA, on the basis of the controls and audits that have been carried out under its responsibility, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC/NMFA are correct and as a consequence reasonable

### **3.9.3 Changes to the audit strategy**

- Details of any changes to the audit strategy (compared to the previous version), and explanation of the reasons. In particular, indicate any change to the sampling method used for the audit of projects.

### **3.9.4 System audits**

- Details of the bodies (including the AA) that have carried out audits on the proper functioning of the management and control system of the programme(s) - "system audits". If part of the systems audits has been outsourced, the tasks outsourced to the contractor(s) should be specified;
- Description of the basis for the audits carried out, including a reference to the audit strategy applicable, more particularly to the risk assessment methodology and the results that led to establishing the audit plan for system audits;
- Information concerning the state of implementation of the audit strategy with regard to system audits. In case the audit strategy was not (fully) implemented, the AA should explain the reason for it. Where no system audits have been carried out in relation to the accounting year, an adequate justification should be provided or information about this being in line with the audit strategy. In any case, the AA should implement all the audit work necessary to draw a valid audit opinion for each accounting year;
- Description of the main findings, clearly separated by programme, and conclusions drawn from system audits. The bodies concerned by the findings should be clearly indicated;
- Indication of whether any problems identified were considered to be of a systemic character, and of the measures taken, including a quantification of the irregular expenditure and any related financial corrections. In case no systemic problems were identified, this should also be indicated in the report;
- Information about the state of implementation of any action plans following the AA system audits carried out in relation to the accounting year to which the report refers. The financial impact should be indicated as well as the state of play of the corrections. The IFR in which the corrections have been deducted from incurred eligible expenditures should be indicated;
- Information on the follow-up of audit recommendations from systems audits from previous accounting years. In case of financial corrections, the IFR in which the corrections have been deducted from incurred eligible expenditures should be indicated;
- Level of assurance obtained following the system audits (low/average/high) and justification. This refers to the degree of assurance which can be attributed to the MCS, as to their ability to ensure the legality and regularity of expenditure. The assessment by the AA is based on the results of all system audits related to the accounting year and, if appropriate, previous accounting years, and the corresponding conclusions.

### **3.9.5 Audits of projects**

- Details of the bodies (including the AA) that have carried out audits of projects. If part of the audits has been outsourced, the tasks outsourced to the contractor(s) should be specified. The AA is expected to explain the measures taken to supervise the work of the bodies that carried out the audits of projects on its behalf (delegated or outsourced). The AA should confirm that the work done by those bodies can be relied on for purposes of the AAR and allow the AA to draw-up a valid audit opinion;

- Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy. The audit trail for the selection of the sample should be ensured;
- Indication of the parameters used for statistical sampling and explanation of the underlying calculations and professional judgement applied. The sampling parameters include: materiality level, confidence level (it is recommended that for a system assessed as having high reliability the confidence level used for sampling projects shall not be less than 60%; for a system assessed as having low reliability the confidence level used for sampling projects shall not be below 90%), sampling unit (i.e. a project or a financial report by a PP), expected error rate, sampling interval, population value, population size, sample size, information on stratification (if applicable);
- In case of the use of non-statistical sampling, indicate the reasons for using the method in line with Reg. Art. 5.5.4, the percentage of expenditure covered through audits, the steps taken to ensure randomness of the sample and to ensure a sufficient size of the sample enabling the AA to draw up a valid audit opinion. In case of non-statistical sampling, the AA should describe the reasoning made to select the sample, with reference to its professional judgement, regulatory requirements and applicable internationally accepted audit standards. In particular, the AA should explain why it considers the sample representative of the population from which it was selected and enables the AA to draw up a valid audit opinion;
- Analysis of the principal results of the audits of projects, describing the number of sample items audited, the respective amount and types of errors by project, the nature of errors found, the stratum error rate and corresponding main deficiencies or irregularities, root causes, corrective measures proposed (including those intending to avoid these errors in subsequent payment applications) and the impact on the audit opinion. The errors reported should relate to findings disclosed in a final audit report, i.e. after the contradictory procedure with the auditee has been concluded. In duly justified cases where such contradictory procedure was not concluded before submission of the annual audit report, this could constitute a limitation in scope. The quantification of the qualification in the audit opinion may be calculated on the basis of the maximum amount of error that the AA considers reasonable on the basis of the information it has available at the time of expressing its audit opinion;
- Comparison of the total error rate and the residual total error rate with the set materiality level, in order to ascertain if the population is materially misstated and the impact on the audit opinion. On the basis of the results of the audits of projects for the purpose of the audit opinion and the annual audit report, the AA shall calculate a total error rate (TER), which shall be the sum of the projected random errors and, if applicable, systemic errors and uncorrected anomalous errors, divided by the population. The TER should then be compared with the materiality threshold, i.e. the maximum of 2% of the expenditure included in the population. Where corrective measures have been taken before the annual audit report is finalized, the AA should also calculate the residual TER, i.e. the TER less financial corrections applied as a result of the AA's audit of projects. The residual TER should then be compared with the materiality threshold. Errors found in systems audits (control testing) are not added to the total error, but should be corrected and disclosed in section 4 "System audits" of the annual audit report;
- Details of whether any problems identified were considered to be systemic in nature, and the measures taken, including a quantification of the irregular expenditure and any related financial corrections;

- Information on the follow-up of audits of projects carried out in previous years, in particular on deficiencies of systemic nature;
- Conclusions drawn from the overall results of the audits of projects with regard to the effectiveness of the management and control system.

### **3.9.6 Coordination between audit bodies and supervisory work of the AA**

- Description of the procedure for coordination between the AA and any audit body that carries out audits as foreseen in Reg. Art. 5.5.2, where appropriate. The procedure should cover coordination in relation to audit planning and coordination and verification of audit results with a view to reaching definitive conclusions and establishing the audit opinion;
- Description of the procedure for supervision and quality review applied by the AA to such an audit body. The description should include an overview of the supervision actually performed in relation to the accounting year, considering the existing internationally accepted audit standards or guidance<sup>20</sup>.

### **3.9.7 Other information**

Where applicable, information on reported fraud and suspicions of fraud detected in the context of the audits performed by the AA (including the cases reported by other bodies and related to projects audited by the AA), together with the measures taken. If allowed by national rules for on-going investigations, the AA should gather information on the nature of the fraud and assess if this is a systemic issue and, if yes, whether mitigating actions have been taken. The state of implementation of financial corrections in relation to fraud or suspected fraud and the information about the IFR in which the corrections were included should be reported in the annual audit report, if applicable.

### **3.9.8 Overall level of assurance**

- Indication of the overall level of assurance on the proper functioning of the management and control system, and explanation of how such level was obtained from the combination of the results of the system audits and audits of projects. For the purposes of the audit opinion to be drawn-up by the AA, the assurance on the legality and regularity of expenditure and the proper functioning of the MCS is based on the combined results of both the system audits (section System audits above) and the audits of projects (section Audits of projects above);
- Assessment of any mitigating actions implemented, such as financial corrections and assess the need for any additional corrective measures necessary, both from a system and financial perspective.

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<sup>20</sup> In this respect, the AA should consider the Guideline No 25 of the European Implementing Guidelines for the INTOSAI Auditing Standards, related to the concept of using the work of other auditors and experts by the European Supreme Audit Institutions. Further guidance is provided by the ISSAI 1600 concerning group audits, ISSAI 1610 (includes ISA 610) on the use of the work of internal auditor, and by ISSAI 1620 on using the work of an auditor's expert.

### **3.9.9 The audit opinion**

The audit opinion is based on the conclusions drawn from the audit evidence obtained. Three types of the audit opinion can be issued: unqualified opinion, qualified opinion, and adverse opinion. The AA may also include emphasis of matter, not affecting its opinion, as established by internationally accepted auditing standards. A disclaimer of opinion can be foreseen in exceptional cases<sup>21</sup>.

In particular in cases of qualified or adverse opinion, the AA is expected to design the corrective actions to be taken by the different authorities involved. The AA should follow up if these actions have actually been implemented and report the following year on the implementation in section 4 and 5 of the annual audit report.

While establishing the audit opinions and setting the levels of assurance, appropriate professional judgement should be applied in order to decide whether the gravity of findings justifies a qualified or an adverse opinion.

In exceptional cases, the AA can present a disclaimer of opinion. This is the case only when the AA is not able to audit the expenditure declared or the functioning of the management and control system due to external factors outside the responsibilities of the AA. In such cases, the AA should explain why it could not reach an audit opinion.

Examples of the audit opinions are presented below.

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<sup>21</sup> E.g. auditors decide they cannot be impartial or independent regarding the organisation audited, the audit scope was substantially limited, insufficient audit evidence, etc.

**Examples:**Unqualified opinion:

*In my opinion, and based on the audit work performed the management and control system functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC/NMFA are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.*

Qualified opinion:

*In my opinion, and based on the audit work performed the management and control system functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC/NMFA are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular except in the following aspects:*

*In relation to material matters related to the legality and regularity of the expenditure: ...*

*and/or [delete as appropriate] in relation to material matters related to the functioning of the management and control system: ...*

*Therefore, I estimate that the impact of the qualification(s) is [limited] / [significant]. [Delete as appropriate]*

*This impact corresponds to ..... [Amount in € and %] of the total expenditure declared. The Donor States contribution affected is thus ... [amount in €].*

The AA should:

- 1) Detail and explain the qualifications
- 2) Estimate their impact: limited or significant
- 3) Quantify the impact

The estimation of the impact of a qualification as "limited" is deemed appropriate when it relates to irregularities (not yet corrected) corresponding to expenditure above 2% but below or equal to 5% of the total expenditure certified in these accounts. If those irregularities exceed 5% of the total expenditure certified in these accounts, the corresponding qualification should be estimated as "significant". The same reasoning applies when the exact amount of the irregularities cannot be quantified precisely by the AA and a flat rate is used; this may be the case of system deficiencies.

The AA should make very clear whether the qualifications relate to the legality and regularity of expenditure or the management and control systems.

Adverse opinion:

*In my opinion, and based on the audit work performed the management and control system does not function effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC/NMFA are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.*

*This adverse opinion is based on the following aspects:*

*In relation to material matters related to the legality and regularity of the expenditure: ...*

*and/or [delete as appropriate] in relation to material matters related to the functioning of the management and control system: ...*

Disclaimer of opinion:

*Because of the significance of the matter described in the scope limitation paragraph above, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMO are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.*

## 4 Closure phase

### 4.1 Final balance (Reg. Art. 9.4)

The final balance shall be paid based on the calculation in the financial annex of the FPR, which is certified by the CA and approved by the FMC/NMFA in accordance with Reg. Art. 9.4. Similarly, to the IFR, this report will also be customised to the specific programme, and the report will be submitted by the PO and certified by the CA through the information system interface<sup>22</sup>.

The calculation of the final balance will take into consideration on the one hand total eligible expenditure reported by the PO, taking into account any previous reimbursements, less the following amounts:

- 1) The total advance and interim payments to the programme from the FMC/NMFA;
- 2) Any co-financing from sources other than the EEA/Norwegian Financial Mechanism 2014-2021;
- 3) Total interest earned until the date of the FPR, and
- 4) Any funds reimbursed from PPs to the PO, not paid to other projects or reimbursed to the FMC/NMFA. Amounts recovered from PPs should be included and accounted for either in the interim financial reports or the final balance.

The final balance will either be an amount payable from the FMC/NMFA to the PO, or an amount payable from the PO to the FMC/NMFA. The final balance payable to the PO or to the FMC/NMFA shall be transferred/reimbursed no later than one month after the approval of the FPR. Any interest earned on the bank account of the PO between the date of the FPR and the reimbursement date shall be included in the reimbursement.

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<sup>22</sup> A separate user manual describing the layout of the FPR and how this shall be completed in the information system will be made available.



A statement of actual expenditure incurred for the last reporting period will also be a part of the final balance report. This section will follow the standard format of the same section of the IFR.

<b>Example:</b>	
Calculation of the final balance	
Total eligible expenditure	€ 1,300,000
Total grant amount available	€ 1,105,000
Awarded grant rate in %	85%
Total eligible expenditure	
Total reported eligible expenditure of the programme	€ 1,200,000
Less:	
Total advance and interim payments to the programme from the FMO	€ 850,000
Any co-financing from sources other than the FMO	€ 150,000
Total interest earned until the date of the Final Programme Report but not reimbursed to the FMO	€ 200
Any funds reimbursed from PPs to the PO, not paid to other projects or reimbursed to the FMO.	€ 300
Final balance	
Total final balance	€ 199,500
FMO's share of the final balance (85%)	€ 169,575
Final balance payable to the PO	€ 199,500
Final balance payable to the FMC / NMFA	-

#### **4.2 Closure declaration (Reg. Art 5.5.1 (f))**

The closure declaration together with a final audit report shall be submitted to the FMC/NMFA by the AA at the latest by 31 December 2025. The closure declaration shall support the final audit report and will assess the validity of the application for payment of the final balance claimed in the FPR.

The guidance provided by the European Commission under the Structural Funds (ERDF, ESF) and the Cohesion Fund on the closure declaration could be used as a reference.<sup>23</sup>

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<sup>23</sup> The EC "Guidance on preparation for the final control report and closure declaration" (Annex IV) at: [http://ec.europa.eu/regional\\_policy/en/information/publications/decisions/2015/adopted-guidelines-on-closure-2007-2013](http://ec.europa.eu/regional_policy/en/information/publications/decisions/2015/adopted-guidelines-on-closure-2007-2013)

## 5 Annexes

### 5.1 Overview of deadlines for eligibility of expenditures

Eligibility					Payment preconditions	Ref. in Financial Guidance
Reg. Art.	Expenditure	Start date	End date	Exception/condition		
8.11.7	Technical assistance	Last MoU signature (whichever is signed first)	31 August 2025	Expenditure related to the preparation of the implementation of the EEA and Norway FMs 14-21 may be eligible as of date when the FMC/NMFA is notified of the designation of the authority responsible for the negotiations of the MoU by the BS.  Eligibility of incurred expenditure shall be conditional on the signature of the MoU. (8.11.8)	Prior to disbursing first payment, the FMC/NMFA shall determine whether the submitted description of the management and control systems (MCSD) at national level meets the minimum requirements. The MCSD is due six months after the MoU signature.  Payment is also conditional on signature of the TA agreement.	2.3
4.6.2	Bilateral fund	Last MoU signature (whichever is signed first)	30 April 2025		Prior to disbursing first payment, the FMC/NMFA shall determine whether the submitted description of the management and control systems (MCSD) at national level meets the minimum requirements. The MCSD is due six months after the MoU signature.  Advance payment upon signature of BFA (4.6.3)  Extraordinary advance payments may be made prior to the signing of the BFA (4.6.3)  The FMC/NMFA can make an advance payment directly to the POs not exceeding € 50,000. The payment shall be made in agreement with the NFP following the designation of the PO. (4.6.4)  In exceptional cases the FMC/NMFA may in agreement with the NFP decide to make payments from the bilateral funds directly to final recipient. (4.6.5)	2.5
8.10.1	Programme management costs	Designation of PO (MoU signature)	31 December 2024	Conditional on approval of the programme by FMC/NMFA (8.10.7)	Prior to disbursing first payment, the FMC/NMFA shall determine whether the submitted description of the management and control systems (MCSD) at national level meets the minimum requirements. The MCSD is due six months after the MoU signature.	2.6.1

					<p>Before any payment is made to the programme, NFP to notify the FMC/NMFA that PIA with PO has been signed. (6.8.5)</p> <p>Extraordinary advance payment related to the preparation of the programme in justified cases of budgetary constraints and at the discretion of the FMC. (8.10.8)</p>	
8.13	Project	Of the date on which the PO decides to award the project grant	No later than either one year after the scheduled completion of project or 30 April 2024, whichever is earlier	Later start date can be set in the PA/PIA/ or project contract (8.13.1)	<p>Before any payment is made to the programme, NFP to notify the FMC/NMFA that PIA with PO has been signed. (6.8.5)</p> <p>Payment to project is also conditional on signature of the project contract</p>	2.7

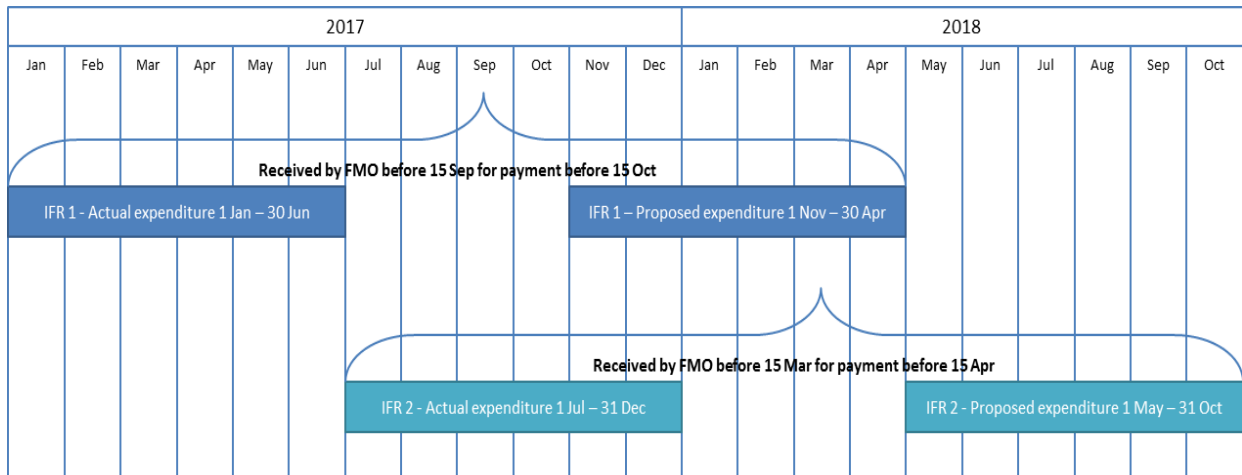
## 5.2 Overview of deadlines for submission of documents

Submission deadlines to the FMC/NMFA				
Reg. Art.	Responsible	Document	Deadline	Comment/Important to remember
5.7.1	NFP	Management and control system description (national level)	Within 6 months of the last MoU signature	Prior to disbursing first payment to programme, TA or BF, FMC/NMFA shall determine whether the submitted MCSD meets the minimum requirements.
6.2.2	PO through NFP	Concept note	Within 6 months of PO designation	
6.3.1	NFP/FMO	Programme Agreement	Within 6 months of concept note submission	
6.8.5	NFP	Notification of signing the Programme Implementation Agreement with PO	After the signature of Programme Agreement	Before any payment is made to the Programme, the NFP shall notify the FMC/NMFA that PIA with PO has been signed. <sup>24</sup>
4.2.6	NFP	JCBF set-up	Within two months of the last signature of the Mo (whichever is signed last): composition, role, functioning	
8.11.6	NFP	TA budget for the whole implementation period, including a detailed budget for the first calendar year.	As soon as possible after signing the MoU	Where the NFP receives support for TA under both the EEA and NRW, it shall prepare one budget covering the TA from both mechanisms.
6.11.2	PO	Annual programme report	15 February each year	
6.12.2	PO	Final programme report	30 April 2025 (four months after the final date of eligibility of programme management cost)	
8.11.10	NFP	Final programme report for TA	15 November 2025	
2.6.3	NFP	Annual strategic report	Two months before the annual meeting unless otherwise agreed	
2.6.4	NFP	Final strategic report	Within six months of the submission of the last final programme report, but no later than 31 August 2025	
7.3.5	NFP/PO	Call for proposals	Two weeks before the publishing	

<sup>24</sup> Does not apply to payments in accordance with paragraph 4 of Article 4.6 and extraordinary advance payments in respect of costs related to the preparation of programmes approved by the FMC/NMFA, in accordance with paragraph 8 of Article 8.10.

7.4.6	PO	List of selected projects	No later than two weeks after the decision on the award of grants	
9.3.4	PO/CA	IFR	15 March, 15 September	Payments by 15 April and 15 October
9.5	PO/CA	Forecast of likely payment applications	20 February, 20 April, 20 September, 20 November	
9.4.	PO/CA	Final balance	With final programme report (30 April 2025)	<p>Any final balance payable to the PO shall be transferred by the FMC/NMFA no later than one month after FMS's/NMFA's approval of the final programme report.</p> <p>Any final balance payable to the FMC/NMFA shall be reimbursed to the FMC/NMFA within the same deadline.</p> <p>Any interest earned on the bank account of the PO between the date of the final programme report and the reimbursement date shall be included in the reimbursement.</p>
5.5.1 (d)	AA	Audit strategy	Nine months after approval of the last programme	
5.5.1 (e) i	AA	Annual audit report	15 February each year from 2019 to 2025	
5.5.1 (e) ii	AA	Audit opinion on the effective functioning of MCS	15 February each year from 2019 to 2025	
5.5.1 (f)	AA	Closure declaration	31 December 2025	
9.7.2	CA (in IFRs)	Interest	Yearly with IFR due 15 March	
12.5.2	IA	Quarterly irregularity reports	Within two months of the end of each quarter	

### 5.3 Financial reporting flowchart and periods



#### 5.4 **Template for the certification of costs claimed by donor partner**

This is issued for the certification purposes as required by Article 8.12.4 of the Regulations on the implementation of the Norwegian/European Economic Area Financial Mechanisms 2014-2021 (the Regulations).

We confirm that procedures have been performed in order to provide assurance as to the relevance and conformity with the Regulations, national law and relevant national accounting practices of the costs claimed by the donor project partner.

<b>Project/initiative reference:</b>	<i>Fill in</i>
<b>Project/initiative title:</b>	<i>Fill in</i>
<b>Donor project partner:</b>	<i>Name of project partner</i>
<b>Entity responsible for the certification:</b>	<i>Name of entity</i>
<b>Type of entity:</b>	<i>Auditor or Competent Public Officer</i>
<b>Start date of incurred expenditure:</b>	<i>DD.MM.YYYY</i>
<b>End date of incurred expenditure:</b>	<i>DD.MM.YYYY</i>
<b>Actual expenditure<sup>25</sup> incurred this period:</b>	<i>Fill in</i>

The [Auditor/Competent Public Officer] hereby certifies that:

- (i) The costs claimed by the donor project partner are incurred in accordance with the Regulations on the EEA / Norwegian Financial Mechanisms 2014-2021<sup>26</sup>.
- (ii) The cost claimed are incurred in accordance with the relevant law and national accounting practices.
- (iii) The [Auditor<sup>27</sup>/Competent Public Officer] has not been involved in the preparation of the relevant financial statements, and is independent of the donor project partner.

	<b>For the Auditor/Competent Public Officer</b>	<b>Optional second signature</b>
<b>Name</b>		
<b>Signature</b>		
<b>Position</b>		
<b>Date</b>		

<sup>25</sup> A breakdown of the costs certified should be provided as an annex.

<sup>26</sup> Provisions on eligibility of expenditures are stated in chapter 8 of the Regulations.

<sup>27</sup> Auditor shall be qualified to carry out statutory audits of accounting documents.