

THE POLAND-RUSSIA CROSS-BORDER COOPERATION PROGRAMME 2014-2020

GUIDELINES ON EXPENDITURE VERIFICATION



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Legal grounds:

1. Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighborhood Instrument (ENI);
2. Commission Implementing Regulation No 897/2014 of 18 August 2014 laying down specific provisions for the implementation of cross-border cooperation (CBC) programmes financed under Regulation (EU) No 232/2014 of the European Parliament and the Council establishing the ENI (hereinafter IR);
3. Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action;
4. Commission Implementing Decision C(2016) 7864 of 08 December 2016 on the 'Joint Operational Programme (JOP) Poland-Russia 2014-2020 for the ENI CBC Programme for the years 2014-2020 to be financed from the general budget of the EU'.
5. Agreement on financing and implementation of the Cross Border Cooperation Programme "Poland – Russia" 2014 – 2020.

Glossary of terms:

Auditor: an expert independent from the audited entity responsible for confirming that the project is being implemented according to the contract and the project application form (AF) through verification of expenditure, including detection of non-eligible expenditure and reporting detected irregularities to the Managing Authority (MA).

Audit trail: possibility to track the history of an economic operation from its registration in the financial and accounting system to documents, which are the basis for costs to be incurred and paid as well as economic events documented with this documentation, including those following applicable public procurement procedures.

Beneficiary: an entity indicated in the AF, who participates in the Project under the conditions of the GC (by concluding the partnership agreement (PA) with the lead beneficiary (LB)).

Lead Beneficiary: an entity indicated in the AF, who has signed the GC and who is responsible for the financial and technical implementation of the project.

Eligible expenditure: expenditure or costs correctly borne by beneficiaries, which are eligible for being covered by the Programme co-financing. It is an expenditure compliant with the rules laid down in the Programme documents, GC and AF as well as with the national and EU regulations.

Financing Agreement – Agreement on financing and implementation of the Cross Border Cooperation Programme "Poland – Russia" 2014 – 2020 setting out conditions of financing and implementation of the Poland – Russia CBC Programme 2014 – 2020.



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Non-eligible expenditure: each expenditure or cost, which cannot be recognised as eligible.

Irregularities: any breach of the GC or violation of the applicable law resulting from an action of omission by an entity engaged in implementing the Programme which cause or could cause a damage in the EU budget by charging an unjustified item of expenditure to the budget of the EU.

Programme: The Poland - Russia Cross-border Cooperation Programme 2014–2020.

Programme documents: documents approved by the MA or the Joint Monitoring Committee (JMC), applicable to the Programme implementation.

Interim/Final Report: a report submitted by the LB to the Joint Technical Secretariat (JTS) according to the *Programme Manual Part II – Project Implementation* (applicable for the relevant call for proposals (CfPs)) and the GC, presenting progress in implementation of the entire project, including the financial and operational progress.

Implementing Regulation (IR): Commission Implementing Regulation (EU) no 897/2014 of 18 August 2014 laying down specific provisions for the implementation of CBC programmes financed under Regulation (EU) No 232/2014 of the European Parliament and the Council establishing the ENI.

Simplified cost options: *lump sums, unit costs, flat-rates* which are co-financed in the form described in the art. 50 of the Implementing Regulation of the EC (EU) No 897/2014 of 18 August 2014.

List of Acronyms:

AA - Audit Authority

AF – Application Form

CBC – Cross-border Cooperation

CfPs – Call for Proposals

CCP - Control Contact Point

EC - European Commission

ENI – European Neighbourhood Instrument

EU – European Union

GC – Grant Contract

JMC – Joint Monitoring Committee

JTS - Joint Technical Secretariat appointed as Intermediate Body

LB – Lead Beneficiary



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MA - Managing Authority

PA – Partnership Agreement

Introduction:

Projects implemented within the Programme are subject to control by authorised institutions. The verification and the confirmation by the auditor of the regularity of expenditure, incurred within the project, is an important element of the control system. The Programme includes the control system in which each beneficiary either appoints its own auditor subject to approval by the CCP (in case of Polish beneficiaries) or select an auditor from the list of auditors drawn up by the CCP (in case of Russian beneficiaries). These Guidelines are addressed to the beneficiaries and auditors to provide them with necessary information about the auditor's responsibilities, the type and the scope of the verification and thus ensure that the expenditure incurred will be accepted by the JTS/MA.



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1. AUDITORS AND THEIR RESPONSIBILITIES

1.1 Auditor's role

The purpose of the auditor's work is to ensure compliance of expenditure under the project with the national law and EU legislation (in case of expenditure incurred by Polish beneficiaries) as well as their compliance with the Programme requirements and provisions of the Financing Agreement, the GC, including the valid version of the AF.

The auditor's responsibility is to confirm the audit trail, including the confirmation that the services, deliveries or works have been completed, made or installed, and the expenditure declared by the beneficiaries has been paid by them. For this purpose, the auditor conducts an administrative accounting and substantive verification of the expenditure presented by the beneficiary in the project interim/final report, to ensure that the expenditure:

- 1) has been incurred in accordance with the provisions of the GC and the project budget;
- 2) is included in the catalogue of eligible expenditure being the part of the Programme documents related to the eligibility of expenditure and the GC;
- 3) has actually been incurred during the eligibility period of project expenditure;
- 4) has been incurred in accordance with the principles of sound financial management, in particular, the 'best value for money' principle;
- 5) has been documented correctly;
- 6) has been fixed in accounting documents.

1.2. Scope of expenditure verification by an auditor

The scope of verification by the auditor includes, in particular:

- 1) verifying whether the interim/final report has been filled in correctly with regard to formal and accounting aspects;
- 2) verifying whether the expenditure declared complies with the AF, the GC, the PA, and the Financing Agreement i.e. whether it has been planned in the project and is settled in accordance with the eligibility rules (including verification of the correctness whether the expenditure was made by the use of the EU and/or the Russian co-financing) and within the correct expenditure category;
- 3) verifying whether the LB has transferred funds to the project beneficiaries in accordance with the AF, GC and the current PAPA;
- 4) verifying whether the substantive scope of the project is being implemented in accordance with the schedule of the GC, including whether the required indicators have been achieved;
- 5) verifying whether the costs, expenditure and revenue of the project as well as the equipment, intangible assets purchased and the construction works completed have been delivered and correctly recorded in the financial/accounting system of the project beneficiary;



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- 6) verifying whether the contractors of services, deliveries and works under the project have been selected through appropriate tender procedures, including compliance with the national public procurement law and procurement rules indicated in the Financing Agreement and in accordance with the institution's procurement plan (if applicable);
- 7) verifying the compliance of the expenditure incurred with the national regulations and Programme requirements, including the requirements related to the provisions related to the Russian Federation financial contribution (if applicable) and the regulations on state aid (if applicable), visibility, publicity, environment protection, equality between men and women, equal opportunities and non-discrimination, provisions regarding the accessibility of disabled persons;
- 8) verifying documentation confirming the delivery of co-financed goods, services and construction works;
- 9) verifying whether the expenditure has been actually incurred and paid, with the exception of simplified cost options;
- 10) verifying whether a separate accounting system is kept or whether the appropriate accounting code is used for all transactions related to the project, except for simplified cost options;
- 11) verifying whether the project implementation progress has been clearly and fully reflected in the reports and whether there is immediate access to the record of activities that have been completed, verifying the appropriate documentation of goods deliveries, service provision and construction works both in progress and finished;
- 12) verifying the complete tender documentation for contracts awarded under the project in accordance with the national law;
- 13) verifying the subcontractor's selection documentation for contracts awarded under the project, the values of which are below the national thresholds for the application of public procurement procedures (taking into account the Programme and national requirements for contracts, if applicable respectively depending on nationality);
- 14) verifying whether the award of contracts has complied with the principle of competitiveness specified in Programme documents;
- 15) verifying methods of archiving project documentation to ensure the documents are accessible in case of future controls;
- 16) verifying whether the project beneficiary has implemented recommendations following the controls and audits carried out and eliminated the irregularities, if any.

The auditor shall verify expenditure on the basis of the audit procedures they are bound to observe, specified in the Programme and in accordance with:

- 1) the International Standard on Related Services 4400, Engagements to Perform Agreed-upon Procedures Regarding Financial Information, in the version issued by the International Federation of Accountants (IFAC);
- 2) the Code of Ethics for Professional Accountants developed and issued by the IFAC's International Ethics Standards Board for Accountants.



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1.2.1 Administrative verification by an auditor

During the administrative verification, the auditor checks whether:

- 1) the interim/final report has been filled in correctly in terms of formal and accounting aspects;
- 2) the required annexes to the interim/final report have been attached;
- 3) the interim/final report presents the progress of project implementation, including the achievement of the indicators (from both quantitative and qualitative point of view);
- 4) the beneficiary's expenditure presented in the report is correct and complies with the eligibility rules laid down in the *Programme Manual Part I – Applicant* (applicable to the respective CfPs);
- 5) the limit of expenditure for particular activity and budget headings has not been exceeded;
- 6) the correct exchange rate has been used to convert expenditure incurred in the national currency into euro;
- 7) the interim/final report does not contain the ineligible expenditure listed in the IR ;
- 8) financial and accounting documents have been correctly described, correspond to the expenditure incurred and confirm it in terms of both the EU and the Russian co-financing;
- 9) the LB and the remaining beneficiaries of the project have a separate accounting systems or separate accounts for all transactions related to the project with a clear division of expenditure related to the EU and the Russian co-financing, without prejudice to the rules of accounting applicable in the country;
- 10) in case of expenditure financed on the basis of simplified cost options – whether the conditions necessary to make payment in full to the partners have been fulfilled, including:
 - a. whether the value of the lump sum expenditure does not exceed the approved lump sum value;
 - b. whether the activity covered by the lump sum payment has been implemented;
 - c. whether costs are not double-reported (e.g. the purchase covered by the flat-rate financing has not also been financed under a different budget line);
 - d. whether unit costs are properly applied and correctly calculated;
 - e. whether the approved methodology has been used to establish the value of the lump sums and flat-rates;
 - f. whether the value of the flat-rate has been changed proportionally in case of costs modification under the category which was the base for flat-rate calculation.

In addition, the auditor of the LB also confirms that the payment has been made by the LB to other beneficiaries.

The auditor carries out the administrative verification of the interim/final report on the basis of the information included, among others, in:

- 1) the approved AF including all annexes;
- 2) the GC including annexes and all addenda or modifications;
- 3) the PA concluded between the LB and the beneficiary(-ies) of the project including all annexes, addenda or modifications;



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- 4) the interim/final report, including all annexes;
- 5) in case of expenditure financed on the basis of real costs – documents confirming the regularity and eligibility of expenditure included in the interim/final report, including:
 - a) accounting evidence of the expenditure incurred (invoices, bills etc.) and documents confirming the payment (e.g. bank statements);
 - b) contracts with contractors for deliveries, services or works;
 - c) acceptance protocols for delivery of goods, services or works and other documents confirming acceptance or completion of works (operation permit etc.);
 - d) other documents necessary to confirm the regularity and eligibility of expenditure;
- 6) in case of expenditure financed on the basis of simplified cost options – documents confirming the correct calculation of the cost amount.

1.2.2 Verification of competition and public procurement by an auditor

The public procurement rules set in the *Programme Manual Part I – Applicant* define the tendering and publicity procedures applicable to different threshold values. Depending on the origin of a beneficiary, the following levels have to be taken into consideration:

- Programme Manual I and II including procurement procedures set out in art. 52.2, 53 to 56 of the Regulation;
- Financing Agreement;
- national law and rules;
- internal rules of the partner organization.

As a matter of principle, the stricter rules must always be applied.

In order to confirm the correctness of procedures, being a subject of the applicable public procurement rules, the auditor verifies tender documents, which depending on the threshold usually consist of the following:

- 1) the protocol of the public procurement procedure including:
 - justification for the procedure chosen in the light of the identified needs,
 - evaluation of the offers in the light of the previously announced award and weighting criteria,
 - all its annexes;
- 2) the contract announcement, including all possible modifications (with evidence that it has not distort competition in the relevant market and that there has been no modification of the object of the initial contract);
- 3) the terms of reference, including clear information for candidates on award and weighting criteria, together with all annexes;
- 4) request for offers or procurement publication/notice;
- 5) the public contract agreement including all possible modifications;
- 6) the bids including the required annexes;



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- 7) the contents of questions and answers – if applicable;
- 8) the payment of the tender bond – if applicable;
- 9) the document appointing the Tender Commission – if applicable;
- 10) the announcement of the rejection and selection of the most beneficial bid;
- 11) the announcement of awarding the public contract.

Recommendation:

To ensure smooth expenditure verification, it is recommended to provide the auditor with the public procurement documentation once the contract has been signed with the contractor, but before the expenditure has been incurred.

Due to the risk of imposition of financial corrections, it is recommended to oblige the auditor to provide advisory services with regard to the ex-ante assessment of public procurement procedures.

The ex-ante assessment can constitute an optional verification carried out on request of the beneficiary by the auditor independently of the administrative verification, and thus such assessment plays a preventive role, helping the beneficiary avoid the negative consequences of possible breaches of national public procurement regulations, EU legislation (applies to Polish beneficiaries) and Programme requirements.

In the case of Russian beneficiaries, after the auditor has identified breaches of national regulations or Programme requirements applicable to public procurement, it shall reduce the amount of eligible expenditure in accordance with the Guidelines on Financial Corrections of the Poland - Russia CBC Programme 2014 - 2020 provided in Annex 1.

In case of Polish beneficiaries, the auditor shall apply the Regulation of the Minister of Economic Development of 29 January 2016 on the conditions for value reduction, financial corrections and expenditure incorrectly incurred in connection with granting contracts (Dz.U. - Journal of Laws – of 2016, item 200).

1.2.3 Forms of administrative verification carried out by an auditor

The administrative verification of project expenditure may be carried out by an auditor at an office – a desk check - (the beneficiaries provide documents confirmed as true to the original copies) and/or at the project implementation site/at the beneficiary's offices – on-the-spot-verification -, based on original documents. The verification covers 100% of expenditure reported by the beneficiary.

The beneficiary submits the project interim/final report in English, while the documentation confirming the regularity of expenditure is in national languages.



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The auditor should have access to all documents related to project financing (and accounting systems) as well as to all project-related records and databases, results and outcomes.

Beneficiaries are responsible for delivering the required documentation and provide clarifications to auditors within the time limits set by the auditors.

The administrative verification (on-the-spot /at the beneficiary's office) is obligatory in case of purchase of fixed assets by the beneficiary for the value equal to or higher than 5000 EUR gross. This type of verification should be carried out until the end of the project implementation, before the final report is submitted.

The on-the-spot verification includes, in particular, checking the following:

- whether the co-financed goods and services have been delivered;
- whether the actual progress of the project corresponds to the information presented in the interim/final reports and whether the expenditure declared by the beneficiary in relation to the project implementation has really been incurred and complies with the requirements of the Programme as well as EU and national rules (if applicable);
- whether separate accounting records are kept for the purposes of the project, including a clear division between the EU and the Russian co-financing;
- whether the originals of the documents, presented by the beneficiary for the administrative verification, are available;
- whether the conditions of documentation storage and archiving, including ensuring the audit trail, have been met;
- whether the information and visibility requirements are fulfilled, which is checked by examining the assets (fixed assets/equipment, repair works/construction works completed) purchased as part of project implementation, including:
 - a) verifying the correct usage of the assets – whether they are used in accordance with the designated purpose, as well as the assumptions and objectives of the project;
 - b) determining the location and the person using the assets;
 - c) verifying the assets inventory number;
 - d) verifying the correct marking of assets in accordance with the Programme visibility rules.
- whether the project activities, outputs and results respect the provisions regarding the accessibility of disabled persons;
- in the case of works contracts, whether:
 - a) there are documents confirming the ownership right to the land and/or buildings or the right to manage/use the land and/or building in which the works will be carried out;
 - b) all EU requirements (if applicable) and national requirements applicable in the case of investment/infrastructure project implementation, have been fulfilled (e.g. building permission, notification of works component or other equivalent documents, environmental decisions, environmental impact report, operation permit).



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1.2.4 Post-control documentation

The correctness of control activities and the scope of the carried out administrative verification is confirmed by the auditor's signature on a certificate, specifying the approved amount of eligible expenditure. The document confirms that the expenditure comply with the rules of expenditure eligibility laid down in the *Programme Manual Part I – Applicant* (applicable to the respective CfPs) and the GC.

The template of the certificate is Annex 2 to these Guidelines.

The verification of the project interim/final report is documented by the auditor by filling in and signing a checklist. The template of the minimal scope of such a checklist is Annex 3¹ to these Guidelines.

The verification of the compliance of the tendering procedures with the national public procurement regulations is additionally documented by the auditor by filling in and signing a checklist for public procurement's control. The template of the minimum scope of the checklist for public procurement's control is attached as Annex 4 - for Polish procedures and Annex 5 - for Russian procedures.

The auditor is obliged to use the templates mentioned above. The auditor is authorised to use additional tools.

1.3 Requirements applicable to the auditors

1.3.1. Auditor independence

Regardless of ISRS 4400 stipulating that independence is not necessary in relation to agreed-upon procedures, it is required that the auditors fulfils the independence requirements of the IFAC's Code of Ethics for Professional Accountants.

In addition, an auditor's independence is defined as his or her organisational independence from institutional structures and from operational activities of the beneficiary, including activities carried out as part of the project. The impartiality and independence shall be infringed in cases when an auditor has provided assurance, advisory or consulting services relating to the beneficiary's activities within two years preceding the start of project verification service, with the exception of services concerning the verification of projects financed by the European Neighbourhood and Partnership Instrument (ENPI) and the ENI.

The independence shall be breached by holding shares or other titles of ownership of the beneficiary being audited. The impartiality shall be infringed by the occurrence of a conflict of interest², when an impartial and objective fulfilment of the function by the auditor is compromised due to family or

¹ In case of Polish beneficiaries the auditor shall fill in the checklist constituting Annex 11 should the expenditure be subject to the principles of competitiveness.

² In order to avoid a conflict of interests, persons who conduct the auditor's activities may not have personal or capital ties with the contractors (beneficiaries). They should be impartial and objective. For conflict of interest, definition of capital and personal ties, please check the Programme Manual I, Chapter "The conflict of interest".



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emotional reasons, political sympathies or belonging to a state, an economic interest or any other common interest with the beneficiary being audited, providers of services to the verified project or entities involved in implementing the Programme. Such situations shall include actions or relationships, which may be contrary to the beneficiary's interest.

An auditor's independence and impartiality is considered as avoiding any situation that could lead to a conflict of interest, including avoiding situations in which even a theoretical possibility exists that personal interest may outweigh the result of the verification.

The auditor shall disclose to the CCP all significant facts they are aware of, which, if they were not disclosed, could interfere with the perceived objectivity and independence of the verification, they carry out.

The auditor must also be independent from other entities responsible for implementing the Programme, including the JTS, the MA, the AA, and the CCP.

The verification can start only after the previous signing of the declaration of impartiality and confidentiality constituting Annex 6 to these Guidelines.

1.3.2. Auditor qualifications

1.3.2.1 Polish auditors' qualifications

- 1) The auditor must fulfil at least one of the following requirements:
 - a) be a member of the national authority or body for accounting and audit, which is the member of the IFAC;
 - b) be a member of a national accounting or audit authority or entity. If this organisation is not an IFAC member, the auditor must commit to work in accordance with IFAC standards and codes of ethics and must hold at least one of the following certificates: CIA, CGAP, ACCA, CIMA;
 - c) be registered as an auditor in the register of auditors maintained by the National Council of Statutory Auditors.
- 2) When verifying public procurement, the auditor must, in addition, fulfil at least one of the following requirements:
 - a) have carried out controls of the correctness of at least 10 public procurement procedures covered by the public procurement law;
 - b) have provided at least 10 legal advisory services concerning public procurement law application, including, among others, issuing written legal opinions, representing before the National Appeals Chamber.
- 3) The auditor must have an adequate knowledge of English which corresponds to no less than B2 of the Common European Framework of Reference for Languages.

The qualifications listed in points 1 and 2 may be proven by two auditors (e.g., cooperating under the civil law with another auditor, a cooperation agreement, a firm with several auditors etc.), whereas



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each point must be fulfilled entirely by one auditor (i.e. situations in which e.g. one auditor confirms completing 5 controls and the other also confirms completing 5 controls will not be considered as the fulfilment of the above conditions).

IMPORTANT

Before selecting an auditor, the beneficiary must estimate and plan public procurement procedures within the project including identification of their subject, object and timeframes, to avoid the situation in which a selected auditor will not be entitled to verify the public procurement procedures.

1.3.2.2 Russian auditors' qualifications

- 1) The auditor must fulfil at least one of the following requirements:
 - a) be a member of the national authority or body for accounting and audit, which is the member of the IFAC;
 - b) be a member of a national accounting or audit authority or entity. If this organisation is not an IFAC member, the auditor must commit to work in accordance with IFAC standards and codes of ethics and must hold at least one of the following certificates: CIA, CGAP, ACCA, CIMA;
 - c) be registered as an auditor in the register of auditors maintained by the National Council of Statutory Auditors.
 - d) be registered as an auditor in the register of auditors and audit organisations of Self-Regulatory Organization (SROs) of auditors, registered in the Russian Federation.
- 2) When verifying public procurement, the auditor must, in addition, fulfil at least one of the following requirements:
 - a) have carried out controls of the correctness of at least 10 public procurement procedures covered by the public procurement law;
 - b) have provided at least 10 legal advisory services concerning public procurement law application, including, among others, issuing written legal opinions, representing before the National Appeals Chamber.
- 3) The auditor must have an adequate knowledge of English which corresponds to no less than B2 of the Common European Framework of Reference for Languages.

The qualifications listed in points 1 and 2 may be proven by two auditors (e.g., cooperating under the civil law with another auditor, a cooperation agreement, a firm with several auditors etc.), whereas each point must be fulfilled entirely by one auditor (i.e. situations in which e.g. one auditor confirms completing 5 controls and the other also confirms completing 5 controls will not be considered as the fulfilment of the above conditions).



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1.3.3. Auditor approval procedure

1.3.3.1. Approval procedure in Poland

The beneficiary is responsible for selecting an auditor in accordance with the appropriate public procurement procedures and ensuring that the auditor fulfils requirements on auditor independence and qualifications laid down, respectively, in points 1.3.1 and 1.3.2 of these Guidelines.

IMPORTANT

At the stage of drafting the documentation on auditor selection, it is recommended to foresee the possibility to withdraw from/terminate the signed contract for project expenditure verification if the auditor is not approved by the CCP or introduce a note that the agreement will be signed only after the CCP approval is issued.

The auditor specified by the beneficiary must be approved by the CCP. In order to receive the approval, the beneficiary presents a checklist indicating the proposed auditor, and:

- 1) documents confirming the auditor's qualifications, e.g. certificates³;
- 2) documents determining the scope of tasks and the area of the auditor's responsibility, e.g. an agreement;
- 3) in case of public procurement controls, it is necessary to present additional documents confirming that the auditor fulfils the conditions for verifying public procurement procedures, e.g. a list of services carried out.

The positive assessment of the candidate by the CCP shall be documented by issuing a document confirming the auditor's approval and sending it to the beneficiary and the JTS.

The checklist template for the auditor's approval is attached as Annex 7 to these Guidelines. The template of the auditor's approval decision is attached as Annex 8.

If the beneficiary cannot guarantee the independence of the project auditor or the auditor's qualifications do not meet the minimum requirements, the CCP has the right to request the change of the proposed auditor.

Project expenditure may not be verified and reported before an approval of an auditor. Consequently, the auditor's selection procedure should start immediately **after receiving a notice that the project has been approved for co-financing**.

³ For the purpose of proving the knowledge of English, the presentation of a self-declaration is acceptable.



IMPORTANT

A beneficiary should submit an application for an auditor's approval not later than within three months from the date of GC signature, in case the CCP does not give its approval, the procedure of the auditor's selection can be repeated before the deadline for submission of the 2nd request for payment to the JTS.

1.3.3.2. Approval procedure in the Russian Federation

In line with point 3.6 and 3.7 of the JOP the Russian CCP shall set up the criteria for the auditors and the list of auditors meeting the criteria. The beneficiaries shall select the auditors from the aforementioned list.

Participating countries are responsible for ensuring that independent from beneficiaries auditors or civil servants selected for the purpose of verifying expenditure incurred by beneficiaries from the territory of a given country, meet the minimum scope of competence specified in art. 32 of the IR and are obliged to use the procedure of the examination of expenditure in accordance with the standards indicated in this article.

1.3.3.3. Expelling auditors

The CCP shall withdraw the approval/remove the auditor from the list of auditors and request their replacement, in particular if the MA/JTS/CCP finds:

- significant irregularities in the amount approved by the auditor;
- major errors in expenditure verification, including repetitive shortcomings of similar nature, which indicate that a given area covered by the verification has not been controlled;
- failure to cooperate, including not providing clarifications, information or documents on request and within the deadlines laid down by the MA/JTS/CCP and other entities authorised to control the project, or the failure to submit notes on irregularities;
- a refusal to be controlled by the JTS/CCP and other authorised control institutions;
- if ineligible expenditure is found by other entities authorised to control, if the auditor does not perform the re-verification of expenditure previously approved with a view to the occurrence of the same type of ineligible expenditure or the non-performance of other control follow-up recommendations which affect the verification carried out;
- evidence of a conflict of interest and loss of impartiality in relation to the project beneficiary.

2. EXPENDITURE VERIFICATION

2.1 Deadlines and reporting periods



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After signing the GC, the beneficiary is obliged to report the progress in project implementation.

The following types of reports and reporting deadlines are distinguished:

- the start up report – submitted to the JTS within 3 months after the GC signature;
- six-month brief narrative report – submitted to the JTS within 21 working days after the end of each six-month reporting period;
- interim report – the interim report of the project should be received by the JTS within 12 months from the start of the project implementation (it may be submitted earlier – once 70% of the pre-financing payment has been spent). The final report should be received by the JTS within 3 months after the end of the project implementation period.

The details of the above reports, including their scope, are presented in Programme Manual Part II – Project Implementation, chapter 6 ‘Reporting by the beneficiaries’).

2.2 Expenditure verification stages

Before the interim/final report is submitted to the JTS for approval, it must be verified by an auditor. Every beneficiary selects its own auditor responsible for the administrative verification of expenditure for the part of the project implemented by that beneficiary.

Only expenditure verified and approved by an auditor for a given beneficiary may be considered eligible within the project and presented for the final approval of the JTS.

In order to ensure transparency, all documents confirming the verification of expenditure by auditors must be available for additional project controls to be carried out by other authorised entities. The auditor is obliged to document the course and the results of the verification in a way that will enable a reassessment of the verification (by another auditor or another authorised entity) based on the documents collected during the expenditure verification process.

The LB receives post-control documents from all beneficiaries, which confirm that auditors have carried out the verification, including:

- the original certificates signed by auditors together with interim/final reports verified by auditors (Annex 2);
- the checklists for individual beneficiaries' reports signed by auditors (Annex 3);
- the checklists for public procurement controls (if applicable) signed by the auditors (Annexes 4, 5).

Having received the above post-control documents, the LB drafts a consolidated narrative and financial project report, presenting data of all beneficiaries (including the LB).

Then the following documents are forwarded to the JTS:

- consolidated report;
- original certificates (Annex 2) together with the list of expenses included in a given report signed by the auditor (last sheet of the financial report - List of expenditure) for each project partner;



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- the checklists for individual beneficiaries' reports signed by auditors (Annex 3).

The JTS should verify the report within the deadline of 21 days. Verification of the report (including its scope and all the deadlines associated with it) by the JTS follows the rules laid down in the JTS Procedures Manual. If clarifications from the beneficiary are necessary, the deadline for the verification is suspended and further verification is continued without undue delay after the beneficiary's clarifications have been received.

After the JTS has approved the report, the order for payment is sent to the MA Department responsible for proceeding with payments. The MA in accordance with the article 32.2 of the IR takes the final decision as to the regularity of the submitted report, which includes the amount of all the expenditures verified and approved by external auditors. At this stage, the MA may ask the JTS for clarifications or corrections, it may return the report for corrections to the LB or to the auditor. The MA confirms correctness of the report in the system, i.e. SL2014, before the payment may be further proceeded.

2.3 Deadlines for the interim/final report preparation and the verification by an auditor

When submitting reports that are subject to certification, the LB has to respect the following deadlines:

- not later than within 12 months from the start of project implementation the interim report is received by the JTS (it may be submitted earlier – once 70% of the pre-financing payment has been spent);
- not later than within 3 months from the end of the project implementation period the final report is received by the JTS.

Coordination of work between the project beneficiaries and auditors falls under the responsibility of the LB. It is recommended that the entire process of preparation and delivery to the JTS of the consolidated narrative and financial project report, the request for payment and control documents issued by all auditors to the JTS, does not exceed 3 months⁴. Recommendations concerning the organization of work related to the preparation of interim and final reports within 3 months are presented below.

Due to the responsibility of the auditors in the expenditure verification system, they should receive the documentation confirming the regularity of expenditure incurred by the beneficiary duly in advance. The expenditure verification by the auditor is assumed to take about 1.5 month. Consequently, it is recommended that the individual narrative and financial interim/final report of the project should be provided to the auditor no later than 14 calendar days after the end of the reporting period.

⁴ Deadline for the Final Report receipt by the JTS is indicated in the GC and makes 3 months after the project implementation period.



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At the same time, the efficiency of the verification greatly depends on the quality and completeness of the documentation drawn up by the beneficiary as well as smooth and prompt submission of clarifications and documents.

In addition, it is recommended that the beneficiary drafts a consolidated narrative and financial report within 21 calendar days from the end of the verification by the auditors (including the time necessary to transfer the original post-control documents from individual beneficiaries to the LB) and submit the required documentation without any delay to the JTS (about 7 days are needed for the delivery of original documents by post to the JTS premises).

2.4 On-the-spot verification by the JTS

The JTS is in charge of the on-going monitoring of project implementation. As part of its monitoring duties, the JTS carries out, among others, on-the-spot verification. The on-the-spot verification may be performed in cooperation of the branch offices as well as in collaboration with the CCPs upon the request of the MA/JTS. This verification is carried out at the offices of the LB/beneficiary of the project or at any other location related to the project implementation. Part of the verification duties (as specified in Annex 9, part b) may be performed as a desk-check. During such controls the implementation of the entire project or part of it is verified.

The on-the-spot verification scope includes:

- 1) verifying the actual implementation of the project and the actual substantive progress;
- 2) verifying and confirming the activities carried out and their compliance with the GC as well as the information presented in project progress reports;
- 3) an analysis of the project outputs and achievement of project objectives.

The on-the-spot verification shall be carried out using a sample of projects specified in the annual on-the-spot verification plan⁵. In exceptional cases, it may also be carried out at the request of the MA, in particular in cases of a suspicion of occurrence or actual occurrence of irregularities having the nature of financial fraud.

Projects are selected for an annual on-the-spot verification plan based on a risk analysis. The methodology of selecting a sample for on-the-spot verification is specified in the JTS procedures. Within the framework of the methodology, the JTS also takes into account the results of the project quality assessment.

The main topics taken into account as part of the quality assessment are as follows:

- project implementation progress;
- project implementation delays;
- errors and gaps in reports;
- suspected infringements during project implementation;

⁵ The Annual On-the-spot Verification Plan shall be drawn up in accordance with the rules laid down in the JTS Procedures Manual.



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- information on control and management risks at the LB/beneficiary institution (frequent changes in management, poor communication with the JTS and between beneficiaries, etc.);
- information from the LB/beneficiary, the MA or another institution regarding the problems in the project;
- numerous ineligible expenditure declared by the beneficiary in its reports;
- results of conducted monitoring visits.

A project may be included in an annual on-the-spot verification plan upon the request of the LB/beneficiary.

A beneficiary is notified of the date of the on-the-spot verification at least 5 working days before its starting date. This notice is sent by email or fax.

The scope of on-the-spot verification shall comply with the attached control checklist (Annex 9, part a and b).

Regardless of the above on-the-spot verification, the JTS may also conduct monitoring visits to the project. Their scope is limited to visiting events organised as part of the project, such as meetings, conferences, seminars, festivals, trainings, etc. Monitoring visits are to confirm that the events organised as part of the project took place and may take place in response to information about problems in the project.

Post-control procedure

- 1) Having carried out an on-the-spot verification, within 30 calendar days the JTS prepares and sends to the beneficiary an On-the-spot Verification Report containing a list of the irregularities and errors found, possible questions or recommendations.
- 2) The cover letter to the On-the-spot Verification Report must obligatorily contain a note that the LB/beneficiary can make justified written objections to the content of the Report within 14 calendar days of its receipt.
- 3) The beneficiary has 14 calendar days from the receipt date of the Report to respond and to send the required information, documents, etc. to the JTS.
- 4) If the JTS does not find shortcomings or irregularities during the on-the-spot control, and the LB/beneficiary does not make objections to the contents of the On-the-spot Verification Report and sends the signed Report copy to the JTS, the report submitted to the beneficiary shall be final.
- 5) If the LB/beneficiary submits objections to the content of the Report, the JTS shall consider them within 14 calendar days from the date of receiving these objections, and:
 - a) If the JTS finds them partially or fully justified – it shall draft the final version of the Report, including a written position regarding the objections and shall send it to the beneficiary within 14 calendar days;or



- b) If the JTS rejects the objections made by the controlled entity – it shall draw up a written position on the objections and shall send it to the beneficiary within 14 calendar days.
- 6) If the LB/beneficiary withdraws from its objections, the JTS shall not consider them.
- 7) During the consideration of the objections referred to in point 5 above, the JTS shall carry out additional control activities or shall request the LB/beneficiary to present documents or provide additional clarifications. In each case when the JTS takes the above action, this suspends the deadline (14 days) until such clarifications or documents have been received or by the day when the JTS completes additional control activities. In this case, the JTS notifies the LB/beneficiary regarding deadline's prolongation without delay.
- 8) If the On-the-spot Verification Report contains a finding of ineligible expenditure, the JTS promptly issues and sends an Irregularity Note on this irregularity to the MA.
- 9) If the JTS formulates post-control recommendations, the method of their implementation is subject to the JTS verification through 'correspondence verification' (based on the documents provided by the beneficiary) or via on-the-spot follow-up verification. The JTS decides on the method of verifying post-control recommendations, taking into account the nature of the recommendations issued.

The scope of the control has been further described in the *Programme Manual Part II – Project Implementation*, chapter 1011 '*Project monitoring and audits*' (effective within the entire CfPs).

2.5. Reporting irregularities

During the project implementation period, as well as after its completion, there may be some cases when expenditure approved by an auditor is found ineligible, e.g. during the project implementation monitoring, as a result of financial verification of expenditure or during the project sustainability period i.e. after the project's end. In particular, the requirement to report irregularities may arise as a consequence of verifications and controls conducted by authorised and competent authorities, i.e. the JTS, the MA, the EC and the AA and/or as a result of control activities performed by an auditor.

In case of finding an ineligible expenditure previously approved, the auditor shall promptly notify the JTS and the LB of the project.

In such case, the auditor shall prepare and submit an Irregularity Note (Annex 10) to the JTS within 5 working days from the date of the administrative finding of the irregularity. After its initial revision, the Irregularity Note is promptly forwarded by the JTS to the MA.

For any irregularities identified by an auditor or other authorised control bodies, the date of the administrative finding is:

The stage of finding an irregularity	Findings in writing	The date of administrative finding
Project report verification	A checklist of the project report	Date of Certificate signature



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On-the-spot verification by the JTS, checks by other authorised entities	On-the-spot verification report/ post control information	Date of signing the final version of the on-the-spot verification report/post control information
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The Irregularity Note should be posted to:

**Joint Technical Secretariat
of the Poland-Russia Cross-border Cooperation Programme 2014-2020
Center of European Projects
14 Głowackiego Street
10-448 Olsztyn**

email: plru@plru.eu.

The auditor shall also follow the instructions of the JTS/MA laid down in the response to the Irregularity Note and/ or shall revise the note at a request of the JTS/MA.

If a project is at its implementation stage and it is still possible to deduct ineligible expenditure from the next payment to the beneficiary, the JTS, following an agreement with the MA, informs the MA of the irregularity by sending an Irregularity Note to the MA. In the due course, the JTS follows the instructions of the MA provided in the MA's official letter regarding a particular irregularity.

As a general rule, the JTS on MA's request deducts the ineligible amount from the approved total of eligible expenditure of the currently verified report by using appropriate information (provided in an Irregularity Note and an official letter of the MA requesting the deduction of an ineligible amount) in the request for payment.

The MA records the amount recovered in the SL2014 and requests the JTS to notify the beneficiary in writing about the deduction.

Similarly, if the project is at its final stage of implementation, the JTS deducts the ineligible amount indicated in an Irregularity Note and an official letter of the MA requesting the deduction from the final balance payment.

When the deduction of ineligible amounts from the interim/final balance payment is not possible (or the amount to be recovered exceeds the amount to be paid) the MA makes a decision on sending a call for payment to the LB.

Similarly, if ineligible expenditure is found in the project by an auditor or another external institution after the final balance has been already approved, the MA issues a call for payment to the LB and recovers the amounts unduly paid. As a general rule, if the due amount is not settled by the LB by the payment due date indicated in a call-for-payment, the MA deducts the principal amount along with the interest from the next payment.

If the amount due is higher than the amount of the next payment to the LB, or for some other reason, the deduction from the next payment is not possible, the MA takes actions to recover the payment due, using all possible legal means.



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The Irregularity Note (template) is attached as Annex 10.

2.6. Procedure for reporting objections to the result of the auditor's verification

A beneficiary has the right to appeal from the result of the auditor's verification to the JTS.

The JTS shall examine the beneficiary's objections within not more than 21 calendar days from the date of receiving the objections.

In the process of examining the objections, the JTS has the right to perform additional verification, request additional documents or clarifications. In each case when the JTS takes the above action, this suspends the deadline (21 days), until such clarifications or documents have been received or by the day when the JTS completes additional control activities. The JTS shall promptly notify the beneficiary about the prolongation of the deadline.

The result of the JTS' control shall be final and the beneficiary shall not have the right to further appeal the JTS' objections. The expenditure recognized as eligible in consequence of resolving the objections shall be approved by an auditor in the next report in which they shall be presented again by the beneficiary (does not apply to the final report). In situations when the beneficiary's appeal, related to expenditures declared in the final report, are recognized as valid by the JTS, the beneficiary shall submit the final report again, including the expenditure that JTS has confirmed eligible. As provided by art. 48 of the IR, all costs incurred should be paid before the submission of the final report. They may be paid afterwards, provided they are listed in the final report together with the estimated date of payment.

3. PROJECT VERIFICATION BY OTHER ENTITIES

3.1 Quality controls by the JTS and the CCP

The CCP controls the quality of the administrative verification by an auditor. The purpose of the control is to ensure correctness of the auditors' verification.

Auditors are selected for the quality control based on the sample of projects selected by the JTS for on-the-spot verification. Furthermore, the quality control may be launched after finding out about some existing or potential irregularities in the administrative verification of an auditor. The quality control may be conducted as an administrative verification or on-the-spot verification.

The CCP shall have the right to request from an auditor: clarifications, accounting documents and other additional documents confirming eligibility of expenditure.

An auditor has an obligation to be subject to the JTS and the CCP control and deliver documentation necessary for the control confirming eligibility of expenditure.

In case of a quality control in the form of an on-the-spot verification, the beneficiary shall ensure availability of facilities required for the control activities.



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Furthermore, the CCP/JTS shall revise checklists and certificates prepared by auditors with the list of expenditure in terms of their compliance and reliability, including requests for additional clarifications regarding expenditure already certified and changes made by the auditor to the post-control documentation.

Control shall be performed during the contract execution period on the basis of an on-going analysis of project reports.

3.2. Other controls or audits carried out by authorised entities

Project controls may also be conducted by other authorities, both national and European ones, authorised to control entities delivering projects financing from the EU funds, e.g. the EC, the European Court of Auditors (ECA), the European Anti-Fraud Office (OLAF) or national control bodies, e.g. the Supreme Audit Office, customs and tax offices, the Public Procurement Office, Central Anti-Corruption Bureau in Poland, etc.

Russian beneficiaries may also be subject for additional controls of the Russian national authorities, with respect to spending the Russian Co-financing granted to them.

In case of the above-listed controls, the auditor and the beneficiary shall accept to be controlled for correctness of performance of their obligations within the project.

During the control, the auditor and the beneficiary shall make available all the documents they may have, provide any explanation which may be needed by the date given by the controlling entity and actively cooperate with the control team.

3.3. Auditor's cooperation with the CCP/JTS and other entities

Each beneficiary should ensure cooperation between an auditor and entities authorised to control and audit the project, in particular when finding any ineligible expenditure at the stage of verifying the consolidated report by the JTS and also in case of any existing or potential irregularities, including financial fraud and after the report is approved by the JTS and the payment is carried out.

In addition, an auditor should participate in trainings and seminars on eligibility of expenditure under the Programme.

A failure to meet auditor's obligations arising from these Guidelines shall result in withdrawing the approval of the auditor (PL)/removal from the auditors' list (RU) and, therefore, making impossible approval of expenditure by the JTS.

**IMPORTANT**

A contract with an auditor should include, at least:

- a) the purpose, the scope and the elements of the auditor's verification compliant with these Guidelines;
- b) the obligation to submit notes on irregularity;
- c) the auditor's obligation to cooperate with the JTS/CCP/MA/AA and other authorised control entities;
- d) the obligation to provide clarifications, answers, submit documents on request of the JTS/CCP/MA/AA and other control authorities within deadlines specified by the control entities;

the obligation of impartiality and confidentiality according to the scope specified in these Guidelines

IMPORTANT

Any irregularities found by the CCP/JTS in the reports approved by an auditor, an incorrect scope of verification carried out by an auditor, an auditor not cooperating with the CCP/JTS during the project implementation, as well as an auditor not being able to provide clarifications and answers to the questions posed by the CCP/JTS within the requested deadlines may result in a delay of payments or loss of the co-financing by the beneficiary. Therefore, it is highly recommended to define in the contract with an auditor contractual penalties:

- the scope of liability and the scope of services at least corresponding to the scope specified in these Guidelines,
- sensible correlation between responsibility and quality, accuracy and timely confirmation of expenditure correctness,
- availability of the auditor, including the obligation to communicate with the CCP/JTS, other authorised control entities and beneficiaries until the final balance payment is received,
- the beneficiary given the right to withdraw from a contract with an auditor or change an auditor in cases of finding any ineligible expenditure in the expenditure confirmed by an auditor and in case of withdrawal of the auditor's approval (PL) by the CCP/removal of the auditor from the list of auditors (RU) and the right to request a replacement of an auditor.



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