Migration Partnership Facility

Financial Management Handbook

for Beneficiaries of MPF grant funding

Funded by the European Union

Implemented by ICMPD

ICMPD International Centre for Migration Policy Development

INTRODUCTION

This handbook has been conceived to support beneficiaries of grants funded by the EU through the Migration Partnership Facility (MPF) of the International Centre for Migration Policy Development (ICMPD).

The material has been jointly developed by ICMPD and BDO - the audit company selected to carry out MPF grant expenditure verifications.

While the ICMPD Grant Contract and its annexes remain the only legally binding set of provisions regulating the grant, this document seeks to clarify some of the more practical aspects of grant financial management and reporting by means of case studies, examples and tips to help you to manage your grant successfully. For this reason, before digging into the contents of this document, please do not forget to carefully read the Grant Contract!

We hope you will find the handbook useful.

For any feedback or questions, please contact your MPF Focal Point or email us at mpf@icmpd.org.

This document has been produced with the financial assistance of the European Union. Its contents are the sole responsibility of ICMPD and can under no circumstances be regarded as reflecting the position of the European Union.

CONTENTS

HOW TO USE THIS DOCUMENT

Throughout the text, you will find different elements and tools aimed at facilitating understanding.

They are explained below:

KEY MESSAGE: The main point in the guidance that applies to ALL grants.

SPECIFIC ISSUE: Specific circumstances to watch out for.

Article xxx from the General Grant Conditions: Specific quote from the Grant Contract to explain what is required or allowed and where to find the relevant provision

CASE STUDY

A case study of how an issue could arise on an MPF project.

POTENTIAL IMPACT: Explanation of how this case study could affect the project and finances.

HOW TO AVOID THIS: Tips to avoid the same issue on your project.

WORKED EXAMPLE

Working through how a particular issue should be treated on your project (for example foreign exchange rates and impact.)

GOOD PRACTICE: How the transaction should be accounted for in your financial report.

KEY MESSAGES

1. PRINCIPLES OF FINANCIAL MANAGEMENT OF A GRANT	Costs not complying with all the eligibility criteria and/or not documented, are not eligible for funding and could be recovered by the Contracting Authority. The best place of reference for more detail on the rules for financial management of a grant is the Grant Contract. Reliable accounting and budgeting is vital to sound financial management. Interest on advance payments should be reported. Cash must be kept safe and banks used properly. Otherwise, the entire project may be at risk.
2. STAFF COSTS	Staff costs claimed should reflect actual staff costs incurred that are normally borne by the Beneficiary(ies) and actual time spent on project activities.
3. PROCUREMENT	Procurement is crucial - if it does not comply with the rules, the Contracting Authority may recover the funds.
4. TRAVEL COSTS	Travel costs claimed must not exceed actual costs incurred or your usual policies.
5. OTHER	For indirect costs, check the flat rate percentage of indirect costs in Article 3 of the Special Conditions. Pay attention to currency rules – use the InforEuro rates on the date of the invoice. Use of contingencies needs to be approved by ICMPD before incurring the expenses. If the Grant Contract includes contributions in kind, these must be included in the financial report and comply with local laws. If Sub-granting, there is a maximum award of €60,000 per third party with additional reporting requirements.
6. REPORTING	Interim reports are due within 60 days and final reports within 90 days of period end. Financial reporting should cover the whole project (not just the MPF funded part) and contain narrative and financial information.
7. PREPARING FOR AN EXPENDITURE VERIFICATION	Your project finances will be verified – It will be easier to prepare for expenditure verification by keeping receipts and records during the implementation of the project as opposed to compiling when reporting period/project has finished. You need to retain documents for 7 years after the final payment. The total expenditure per the List of Incidentals should agree to the total eligible expenditure claimed in the financial report.

1. PRINCIPLES OF FINANCIAL MANAGEMENT OF A GRANT

1.1 RECORD KEEPING AND DOCUMENTATION

KEY MESSAGE: Costs not documented are not eligible for funding

Keeping clear and relevant documentation is vital. Without proper documentation, it is impossible to show that costs claimed meet the conditions of the Contract.

If a Beneficiary cannot provide documentation showing that funds have been used in accordance with the Contractual Conditions, the Contracting Authority may decide to recover the unsubstantiated expenditure.

SPECIFIC ISSUE: Co-ordination of multi partner or location projects

The project is often carried out by several independent partners, each with its own internal control structure. In such cases, a single entity will lead and coordinate the entire project.

In the MPF Grant Contract signed with ICMPD, the lead applicant will become the Coordinator, which is considered responsible for the entire project, while the co-applicants will become Co-Beneficiaries. The Coordinator and the Co-Beneficiaries are collectively referred to as Beneficiaries (for more info, please refer to Article 1 of the General Conditions). The Coordinator is the only Beneficiary to sign the contract with ICMPD but the contractual stipulations will apply to all Beneficiaries. The Coordinator will therefore be considered liable for the project (even in case of ineligible costs linked to the potential poor execution of activities or requirements by the project partners).

In order to mitigate this risk, the Coordinator should consider the following basic measures:

- at project design stage, evaluate whether the co-applicants have adequate internal controls in place, in line with the general principles outlined in this module;
- at project start, stipulate a written agreement with the Co-Beneficiaries where the responsibilities of each partner are clearly defined (implementation and reporting tasks, management and transfer of funds etc.) and where the Co-Beneficiaries acknowledge having read the Grant Contract between ICMPD and the Coordinator and agreeing on all stipulations (especially procurement rules, use of exchange rate, eligibility of costs, reporting etc.);
- during project execution, closely monitor the performance of the Co-Beneficiaries to ensure that their internal controls remain adequate and that execution remains under control;
- at regular intervals during the project, obtain copies and / or review the accounting records and supporting documents of those activities managed by the Co-Beneficiaries to ensure they meet the contractual conditions.

KEY MESSAGE:

Make sure to understand the contractual conditions.

Each and all reported costs must be related to the project.

The project may be subject to audit and documents should be retained for 7 years after reception of the final payment.

Article 14.1(d) – General Conditions: To be eligible the costs must be "identifiable and verifiable." This means that there must be adequate documentation proving that any expenditure is related to the project.

Article 16.3 to 16.6 – General Conditions: The Beneficiary(ies) "shall allow verifications to be carried out by the Contracting Authority, the European Anti-Fraud Office, the European Court of Auditors and any external auditor authorised by the Contracting Authority" allowing such entities to "examine its accounting and information systems, documents and databases concerning the technical and financial management of the Action".

Article 16.7 – General Conditions: The Beneficiary(ies) "shall keep all records, accounting and supporting documents related to this Contract for seven years following the payment of the balance."

Article 16.7 – General Conditions: The supporting documents and records "shall be easily accessible and filed so as to facilitate their examination".

The tips below may provide useful guidance:

Not all Beneficiaries abide by the conditions of the Contract.	• The Coordinator should sign an agreement with the Co-Beneficiary(ies) to obtain a written acceptance of all contract stipulations and reporting rules.
Project staff have left or are no longer available.	• The supporting documents should be able to provide the information so need to be detailed and clear.
Certain documents may not be drafted or kept.	• Ensure that project staff know and understand the requirements from the start.
The documents kept do not provide sufficient evidence that the Contractual Conditions have been met.	• Ensure that the project documentation provides strong, relevant proof (for example, the documents are official documents from an outside source/third party) and 'in original form'.
Project documents may have been kept, but may not be retrievable later.	• Arrange for a numbering, filing and archiving system that can be followed easily and allows easy retrieval of the documents.
Project documents may be prematurely discarded.	• This may occur if the Beneficiary's rules do not require a document to be kept for the full period required in the project contract. • State clearly the date until which the documents must be kept in the archiving system. Remember, this is 7 years following the payment of the balance.
Project documents may deteriorate over time.	• This may occur if documents are not protected from heat or damp. Arrange for the documents to be archived in safe, secure conditions.

☑ **Does the project documentation provide strong enough evidence?**

Review all documentation with a critical eye to ensure that it provides sufficient evidence of eligibility. Here are some basic principles:

- 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. For this reason, during checks or audits, the auditors will ask to see original documents, so these must be kept. *(Note that if original documents from Co-Beneficiaries cannot be sent to the Coordinator, the auditor may need to visit the Co-Beneficiary (ies).*

- An ***official*** document is more reliable than an unofficial one. For example, an official bank statement provides more reliable evidence of payment than a cash payment voucher drawn up by the Beneficiary's cashier.

- A document issued by an ***outside source*** is better evidence than a document drawn up in-house.

☑ **Does the project documentation show that expenses are eligible?**

Several documents may be needed to prove that expenses are eligible. For example, a supplier's invoice may prove that an item was bought for a certain price, but not that the expense was eligible in other ways, such as:

- ***Relation to the project:*** The supplier's invoice shows that goods were bought, but not necessarily that they were used for the project. The link to the project and the need of such cost for the implementation of the action needs to be documented, for example, by means of receipts signed by the ultimate beneficiaries. For vehicles, a logbook can be kept to prove that the vehicle was used for the project and not for other purposes.
- ***Reality:*** Project documentation should prove that the costs were incurred. For example, the supplier's invoice may prove that the supplier was owed money by the project. But it does not necessarily prove that the project completed the transaction by accepting the goods and paying for them. In that case, it is necessary to keep the supplier's invoice AND the supplier's delivery note AND the bank statement (or receipt) showing that payment was made.
- ***Within the project period:*** The grant contract will specify a period during which the action is to be implemented. The purchase invoice may not show that the costs were incurred during the term of the contract. In that case, a delivery note or a transport document showing when the goods were received within project contract duration is needed.
- ***Compliance with applicable tax and social legislation***
- ***Being foreseen in the Action budget and reasonable:*** The costs incurred should have been foreseen in the Action budget, comply with the notion of sound financial management and be consistent with standard market costs (e.g. for purchased goods or services) and with costs normally borne by the organization (e.g. for staff salaries)
- ***Specific contractual conditions:*** The Contract may include specific conditions, for example, requiring specific procurement procedures. In these cases, the project documentation will need to include not only the supplier's invoice but evidence that these Contractual Conditions were also met.

KEY MESSAGE:

A **cost is eligible** when: (1) is **necessary** for the **implementation** of the action; (2) can be **clearly identifiable and verifiable** (recorded, compliant, backed up); (3) is incurred **during the implementation period;** (4) **complies with grant contract** and with **applicable tax and social legislation;** (5) **is reasonable** (complies with the notion of sound financial management) and (6) **is foreseen in the budget** of the action

Examples of ineligible costs: alcoholic drinks, gifts and presents, VAT (unless it can be proven that you are unable to recover it), exchange rate losses, debts and fines, any kind of tips, costs incurred outside of the implementation period, overcharged shared costs.

☑ **Is the arrangement clear?**

Review the documentation arrangements with a critical eye to ensure they are fully transparent and free of any ambiguity. At first glance some project documentation arrangements may seem practical, but if they are not completely clear, they may cause problems later.

☑ **Can the supporting documents be retrieved easily?**

If the Beneficiary cannot retrieve the project documentation during an audit, the consequences could be the same as if no documentation had been kept at all, especially if the project has already ended and the staff are no longer on hand. How can this be prevented?

- ***Simple, easy-to-use referencing***: Use a simple referencing and numbering system that anybody can follow, even people unfamiliar with the project. Make sure the system allows the documents to be found easily and quickly. Project references may follow a chronological, numerical, thematic, geographical or other system. The Beneficiary should decide on the most appropriate system depending on the circumstances and ensure consistency as much as possible. A clear filing index can save a lot of trouble.

- ***Orderly filing:*** Use orderly physical arrangements to file the documents. For example, file the documents in folders for easy retrieval, rather than tying them with string or keeping them in bags or in piles. If they are archived in boxes, one simple, effective measure is to label the box with its contents.

- ***Physically secure archiving conditions:*** Make sure the documents are physically protected and cannot deteriorate while in storage or in transit. Documents should not be stored in damp conditions or next to flammable or chemical products. They should be stored in closed premises safe from rodents and other animals.

CASE STUDY

In the frame of an MPF project, a workshop is organised with a delegation from abroad, which is entitled to perdiems. Participants are all extremely busy with their contributions to the different workshop sessions, so it is decided that the representative of the foreign delegation will collect the perdiems of their whole group. The representative offers, in good faith, to sign the cash receipt voucher on behalf of all their participants. At the time, the project staff may find this a quick and easy way to document the payment. However, this arrangement may mean that the Beneficiary is later unable to prove that the participants were actually paid.

POTENTIAL IMPACT: An auditor inspecting the documents – possibly also several years after the facts - might believe that the payment voucher was fraudulent and disallow the expenditure.

HOW TO AVOID THIS: Even if it requires more time and work, please make sure to adequately document all payments. In the case of perdiems or similar reimbursements, each recipient should sign individually his/her cash receipt voucher!

The Coordinator of a multi-partner and/or multi-location project has to reconcile multiple requirements. As Coordinator, it has to acknowledge that local partners (Co-Beneficiaries) may be obliged to keep documentation locally to comply with local accounting and tax regulations. As a Beneficiary of MPF funds, the Coordinator is accountable to the Contracting Authority for the Co-Beneficiaries' execution of the contract. It must:

- present supporting documents when the Contracting Authority conducts audits and checks;
- take into account that the auditors will generally require original supporting documents as proof;
- facilitate audits and checks, bearing in mind that if the documentation is spread over many locations, this may create obstacles.

The Coordinator will need to find practical ways to reconcile these conflicting objectives. Here are some possible approaches.

- At the project proposal stage, question whether project execution/documentation really needs to be spread between so many local actors. If it is possible to organise the project so that it is not overly dispersed, this will make audits and checks easier.
- See whether the documentation can be grouped in fewer locations (for example all the documentation for one particular country might be grouped in only one location in that country).
- See whether the documentation can be moved temporarily to a central location when an audit is carried out.
- Ask local partners (Co-Beneficiaries) to send a copy of their documentation together with their financial reports. This would help the Coordinator to check the work of the local partners, be assured about the expenses claimed in the financial report and confidently prepare a consolidated financial report for the Contracting Authority.
- This approach would also facilitate audits, as the auditors might then be able to inspect the copies centrally. But the auditors may still wish to check that the copies match the originals.
- The Beneficiary may carry out pre-award checks on partners' capacity or arrange for training of partners.

SPECIFIC ISSUE: Difficult project environments

Certain projects may present specific difficulties linked with the regional/local environment, for example:

- There may be no reliable alternative suppliers on the market, which may complicate competitive procurement procedures.
- There may be no effective banking system, so that local actors ask to be paid only in cash, not via a bank.
- The remoteness of field operations, combined with other difficulties, may make it difficult to collect supporting documents.

In such circumstances, it is important to find practical ways of accommodating local circumstances while providing acceptable supporting evidence. For example:

- Avoid unclear practices. Ensure the procedures followed, decision-making process and attempts to obtain quotes are fully documented.
- If it is really impossible to avoid making payments in cash, be extremely strict about the way the payments are documented:
  - Ensure the '4-eyes-principle' when disbursing cash;
  - Ensure the recipient signs that they have received the cash and the person disbursing also signs;
  - The recipient of the cash and the Coordinator should each keep a copy of the payment slip.
- If the circumstances of the project are so difficult that it is impossible to obtain sufficient documentation, Beneficiaries are advised to inform the Contracting Authority in writing as early as possible, suggesting measures to reduce the risks, and ask for its prior written approval. This correspondence should be retained on file by the Beneficiary.

1.2 ACCOUNTING SYSTEM

KEY MESSAGE: Reliable accounting is vital to financial management and reporting

Accounting has two basic purposes:

- to show the revenue, expenses, assets and liabilities of the project for financial management purposes;

- to provide the data needed to draw up accurate financial reports.

To meet these basic objectives, accounting records must be:

- up-to-date;
- accurate and reliable;
- drawn up according to proper accounting standards, methods, policies and rules.

Fundamental bookkeeping principles:

If the principles listed below are not followed, there can be no proper bookkeeping:

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

To be able to keep proper accounting records, Beneficiaries should know accounting techniques.

The project accountant should be a competent, disciplined person, trained and experienced in accounting techniques. It is essential to keep good accounting records. Without reliable up-to-date accounting records, it is impossible to know where the project stands in terms of its use of financial resources.

KEY MESSAGES: Use proper bookkeeping techniques and accounting principles to manage your project. Spreadsheets are helpful but limited and your accounting records should include all transactions. Watch out for currency rules and any interest received on advances.

RISK	HOW TO AVOID OR REDUCE THIS RISK
The accounting system may be inadequate. For example, it may not be a double-entry system.	➢ Practise double-entry bookkeeping. ➢ Consider using specialised accounting software.
The accounting records may not comply with generally accepted accounting standards. For example, asset items (e.g. recoverable advances) may be recorded directly as expenses	➢ Ensure the project's bookkeeping staff are qualified and experienced in accounting.
The Beneficiary may not keep the project's accounting records according to its usual accounting practices. For example, the Beneficiary may use accrual accounting for its normal operations but cash accounting for the MPF project.	➢ Be sure to use the same accounting policies and practices for the MPF project as for all other operations.
The accounting system may not handle foreign currencies correctly.	➢ If the entity or project operates in several currencies, consider using multi-currency accounting software.
The currency conversion method or the exchange rates used may be incorrect.	➢ Make sure any currency conversions are made using the official European Commission monthly exchange rate, Inforeuro, by using the date of invoice, unless otherwise stipulated in the Special Conditions. Please remember that

	this applies to both Coordinator and Co-Beneficiaries!
Incorrect accounting entries may be made. Examples of incorrect accounting entries include misclassifications or ineligible expenditure being recorded in eligible expense accounts.	➢ Ensure journal vouchers are properly checked and reviewed by authorised persons.
The accounts may not be kept up-do-date or long outstanding balances may not be reconciled in good time.	➢ Reconcile the accounts regularly. Ensure all transactions are recorded without delay.

CASE STUDY

The project "Human Relief and Rights" was run by a public sector organisation, which had its own pre-existing accounting system. However, the Beneficiary organisation did not open a specific code in its accounting records for project activities, as its accounting system only allowed classification of expenses by type and not by project.

The Beneficiary therefore decided to keep project accounting records by re-typing every expense voucher related to the project into a large set of spreadsheets.

During an interim audit of the project, the auditors found many errors in these spreadsheets, for example, manual input errors (such as inverted digits), expense vouchers entered twice under different budget headings and incorrect formulae entered in the spreadsheets (leading to clerical errors).

A number of the entries in the project records related to cost allocations, but these were estimates, which the organisation was not able to support with precise, verifiable data. The auditors reported these issues.

POTENTIAL IMPACT: On receipt of the draft audit report, ICMPD decided to ask the Beneficiary to submit a corrected financial report, and suspended its payments to the project. The Beneficiary re-constructed the records, which resulted in a material correction to the interim financial report and to the ICMPD payment.

HOW TO AVOID THIS: The Beneficiary should have opened a specific code in its accounting system for the project. All expenditure related to the project should have been recorded under this code. All supporting documentation should have included a reference to this code. When creating the financial report, the first step would have been running a report for this project code.

Manual versus computerised methods

If the bookkeeper is competent and obeys the fundamental principles of bookkeeping, it is not always necessary to use computerised methods.

However, specialised accounting software will generally allow more powerful control features than a manual system, so it is preferable to use accounting software.

Separate versus integrated records

Beneficiaries may opt to keep a separate set of accounts specifically for the project, or to include the project's accounts in their own accounting system.

In the latter case, they should have a method of ensuring that the project's records are still easily identifiable.

The Contract requires the project's accounting records to be kept in accordance with the accounting principles and rules of the country of the Beneficiary.

These accounting principles and rules generally prescribe accrual accounting.

Under accrual accounting, not every transaction is recorded in expenses. Some transactions must be recorded in the assets or liabilities accounts in the balance sheet.

Examples of assets:	Examples of liabilities:
• Recoverable guarantees. • Advances paid to suppliers. • Advances paid to Co-Beneficiaries / sub-grantees. • A rent deposit (recoverable).	• Retention guarantees for construction works. • Amounts owed to suppliers for contracts carried out but still to be paid for.

1) Use spreadsheets only for what they can do!

Spreadsheets are useful for a number of purposes but can be easily manipulated and can contain errors. They are useful tools for:

- preparing account reconciliations;
- preparing account analysis;
- preparing fixed asset registers, inventory registers, budgetary follow-up and other follow-up tools; and
- preparing financial reports.

For these reasons, Beneficiaries should not use spreadsheets for keeping the accounting records, except if used in conjunction with additional control tools which ensure the respect of the principles of double-entry bookkeeping and inalterability of the accounting entries.

2) The accounting records must include all transactions.

The accounting records must cover all the costs of the project, irrespective of whether they have been financed by MPF funds or by funds provided by other parties.

All costs must be stated in the financial report.

The accounting records and the financial report for the project must cover not only project activities financed by MPF funds, but any activities financed with funds from other donors or from the Beneficiary's own financial resources (e.g. under co-financing).

The reason for this rule is that the MPF contribution is calculated as a share of the total eligible expenditure of the project.

This means that the Contracting Authority has the right to audit all of the project expenditure and not only that financed by MPF funds.

3) Pay attention to currency rules.

Beneficiaries will generally record project expenses in the local functional currency. But the financial report will have to be drafted using the currency stipulated in the special conditions of the Grant Contract, in this case the Euro.

Article 15.8: Costs incurred in other currencies than euro shall be converted using the official European Commission monthly exchange rate, Inforeuro, by using the date of invoice, unless otherwise stipulated in the Special Conditions.

Please remember that this rule applies to all Beneficiaries (Coordinator + Co-Beneficiaries)!

Use a proper chart of accounts and coding system.

Properly coding the bookkeeping entries in the accounting records makes it easier to draft financial reports.

Beneficiaries are advised to pay attention to the <u>accounting classifications</u>.

- The Contractual Conditions will always require financial reports for the project to use the same classifications as the project's budget.
- Beneficiaries should design the chart of accounts for the project to meet this requirement.

Beneficiaries are advised to pay attention to the <u>segregation of eligible from ineligible costs</u>. Not every type of cost is eligible. To be eligible, project costs need:

- to meet all the eligibility criteria set in the contract; and
- not to be specifically excluded under the contractual conditions (e.g. VAT and import duties).

Beneficiaries should design the chart of accounts for the project to allow eligible and ineligible costs to be segregated.

Beneficiaries are advised to <u>check account codes</u>.

- So that the accounts are meaningfully classified, set up a method of ensuring that each bookkeeping entry is posted to the correct account.

For example, arrange for the project's accounting entries to be approved by the project's finance manager or director.

1.3 INTERNAL CONTROLS

KEY MESSAGE: Better safe than sorry: set up internal controls

Internal Control is designed to provide reasonable assurance that operations are effective and efficient, that financial information is reliable and that the Contractual Conditions have been met.

If proper internal controls are not in place, there is a high risk that MPF funds will not be spent efficiently and as agreed in the Contract. Project assets may be lost and the use of funds may not be properly accounted for.

It is essential to have an internal control system that provides reasonable assurance of achieving the objectives.

WHY IS INTERNAL CONTROL A KEY FINANCIAL MANAGEMENT AREA?

Poor financial and internal controls in an organisation means that:

- Assets and funds will be put at risk of theft, fraud or abuse;
- Funds may not be spent in accordance with organisation's objectives or donors' wishes; and
- The competence of managers may even be called into question.

All losses, ineligible expenditure, missing assets, compliance breaches etc. can be traced to an internal control failure. The primary foundation of a good internal control system is the Beneficiary's own internal environment, as set up by the Beneficiary's management.

This control environment includes:

- integrity, ethical values and the behaviour of key executives;
- management's operating style;
- management's commitment and competence;
- the organisational structure and assignment of responsibility and authority;
- human resources policies and practices.

With the control environment, management "sets the tone" of the entire organisation. By promoting key values such as integrity, ethics, transparency, competence and dedication to good management practices, management provides a framework for discipline and structure.

SYSTEMS DESIGN - PROPORTIONALITY

Every organisation is different and financial systems and internal controls have to be adapted to meet the organisation's needs and available resources.

The development of an internal control to mitigate a risk should consider:

- The **impact** - what would the consequences be if no internal control was developed to mitigate the risk. Would the consequence be minor, major or critical to the organisation?

➢ The <u>likelihood</u> – what is the chance of the event taking place if no internal control is in place – is it a low, medium or high chance?

Sound Financial Management

Article 1.5 – General Conditions: "The Beneficiary shall implement the Action with the requisite care, efficiency, transparency and diligence, in line with the principle of sound financial management and with the best practices in the field."

Prohibition of Conflicts of Interest

Article 4.1 and 4.2 – General Conditions: "The Beneficiary shall take all necessary measures to prevent or end any situation that could compromise the impartial or objective performance of this Contract…Any conflict of interest which may arise during performance of this Contract must be notified to the Contracting Authority without delay. In the event of such conflict, the Coordinator shall immediately take all necessary steps to resolve it."

Accurate and Regular Accounts

Article 16.1 – General Conditions: "The Beneficiary shall keep accurate and regular accounts of the implementation of the Action using an appropriate accounting and double-entry book-keeping system."

Regular Checks

Article 15.6 – General Conditions: "The Coordinator must provide an expenditure verification report for:

a) any 12 months implementation period;

b) any final report.

The expenditure verification report shall conform to the model in Annex VII and shall be produced by an auditor approved or chosen by the Contracting Authority.

1) Ensure sufficient segregation of duties

A key measure is to ensure that no single transaction or chain of transactions is in the hands of a single person.

A transaction or chain of transactions may often involve many different tasks. By assigning these tasks to different people, Beneficiaries will reduce the risk of individuals being in a position to commit fraud or conceal errors in the normal course of their duties.

Examples of activities that can usefully be segregated include:

- physical control of assets versus verification tasks (for example, cash custody versus cash reconciliation tasks);
- management tasks versus authorisation tasks (for example, following procurement procedures versus authorising the contract with the supplier);
- management tasks versus accounting tasks (for example, approving the purchase invoice versus accounting for it);
- accounting tasks versus payment tasks (for example, preparing payment versus signing the bank transfer order).

2) Consider the most effective way of segregating duties.

There may be several ways of segregating tasks, and some may be more effective than others.

It may be possible to organise the tasks so that the individuals performing them will control each other. This would enhance controls and mitigate risks.

Beneficiaries should take the time to think about the most effective way of segregating tasks, depending on the nature of the project.

3) Foresee effective approval points.

Approving also means checking

Appropriate authorisation procedures enhance controls. Identify approval points that are relevant to the project and assign responsibility for carrying out such tasks to the most appropriate individuals.

These individuals must understand that they are responsible for checking anything they approve.

For example, for a service contract the team leader may be asked to approve the timesheets for the project staff.

Approval will usually be shown by the team leader's signature on the timesheets. However, to provide effective control, the team leader must effectively check the timesheets before signing them.

4) Staff must understand their responsibilities.

For the segregation of duties to work as intended, every person concerned must understand what his/her responsibilities are.

To avoid misunderstandings, it is important to describe all responsibilities and tasks in writing, for example by means of:

- written job descriptions;
- a clear organisation chart, showing responsibilities and tasks;
- descriptions (or flow-charts) of the intended flow of transactions, indicating control points and the frequency of controls.

An effective way to cover these topics is to put them into a specially designed project or programme manual.

5) Small organisations must also segregate duties and controls.

Organisations with few staff may find it difficult to segregate duties. However, a minimum level of segregation (for example, separation between the most important functions such as authorisation and accounting) is needed.

Sometimes only limited segregation of duties is possible and economically feasible. Beneficiaries should compensate this by introducing a close control and review system, run by management.

1.4 CASH AND BANK MANAGEMENT

KEY MESSAGE: Cash must be kept safe and bank accounts used properly. Otherwise, the entire project may be at risk.

Article 15.8 – General Conditions: The Contracting Authority shall make payments to the Coordinator on the bank account referred to in the financial identification form in Annex V, which allows the identification of the funds paid by the Contracting Authority. The Contracting Authority shall make payments in euro and reports shall be submitted in euro.

1) **Always make sure the funds follow the most direct route.**

If the arrangements for channeling the funds to the project are ineffective, many problems can occur:

- the funds may take too long to reach the project's implementing units, hampering implementation;
- part of the funds may be diverted by intermediaries;
- in multi-country/multi-currency projects, unexplained currency losses may occur (and currency loss is not an eligible cost);
- it may become impossible to say how much interest the MPF funds generated.

Arrange for the funds to be forwarded to the project implementing unit by the most direct route. For example:

- Avoid sending funds through intermediary entities or currencies (e.g. from a Eurozone country to Africa via a non-Eurozone country).
- Consider using the imprest technique, whereby a fixed amount is forwarded to the implementing unit and is replenished for the exact amount of the actual expenditure proven by that implementing unit.
- Consider opening dedicated project bank accounts even if it is not required. They can be useful for grants as they allow project funds to be segregated from other funds.

2) **Open dedicated bank accounts for the project if possible.**

Dedicated bank accounts bring all funding for the project together in one or more bank accounts used exclusively for the project.

This is a very effective way of managing the project's cash. It has many advantages:

- it allows the funds to be traced clearly from their source to their use;
- it makes checks and reconciliation easier;
- it minimises the risk that funds intended to finance the project may be used to finance other activities;
- it helps minimise the risk of double financing;
- if the Contractual Conditions stipulate contributions from several parties (co-financing), it helps to show that all the parties have made the financial contribution stipulated and that these contributions have been used for the project.

For MPF grants, the use of a dedicated bank account is not mandatory. However, because of its advantages, Beneficiaries are encouraged to consider using it.

3) **Frequently reconcile and verify.**

Cash is easy to misappropriate, so strict control measures are required.

Reconcile/check balances**:** Count petty cash regularly. Check that the cash count matches the accounting records and the cash book.

Frequently check that the balances given in bank statements tally with the accounting records.

Reconcile cash-flow**:** Perform frequent cash-flow reconciliations to ensure that cash/bank transactions tally with the bank balances.

Ensure proper segregation of duties**:** Arrange as much as possible to segregate duties of:

- people with access to cash (e.g. those preparing the bank transfers / those signing the bank transfers / those with custody of petty cash) from people responsible for bookkeeping;
- people with access to cash and bank resources from people who performing checks and reconciliations.

Require two signatures: Ensure that two signatures (from different staff members) are required for bank payments.

4) Minimise petty cash floats and transactions.

Cash can be easily stolen, for example by falsifying receipts.

- Keep payment in cash to a minimum, and limit the petty cash float.

5) Pay by bank transfer wherever possible.

Bank transfers have several advantages over other methods of payment:

- they allow duplicate signature control;
- they limit the risk of theft;
- they ensure that the payment reaches the intended payee if the bank account number has been properly checked;
- they ensure that the funds can be traced using bank statements.

These advantages explain why bank transfer is much safer than payment in cash.

Bank transfer is also safer than payment by cheque. Cheques can be lost or may remain uncashed for some time.

They may also make it difficult to prove payment, as the payee's name does not usually appear on the bank statement.

A photocopy of a cheque issued, even if accompanied by a signed declaration of the recipient, does not constitute a proof of payment (it could be uncashed or undelivered). The photocopy is useful to show the payee's name but only the bank statement will provide a proof of payment.

6) Do not make inter-project loans.

MPF funds may only be used for the action covered by the relevant agreement.

Beneficiaries should not provide temporary advances or loans from the project's funds to other projects.

If a Beneficiary intends to make temporary advances from the project's funds to another MPF-funded project, they should obtain the prior approval of ICMPD.

7) Use only safe solutions to shelter project funds.

It would be imprudent to take risks to maximise the project's financial income. Beneficiaries should use only safe financial arrangements that will not put project funds at risk.

Beneficiaries are advised to:

- open bank accounts for the project only with reputable financial institutions that offer a sufficient guarantee of financial solidity;
- abstain from keeping project funds in currencies other than that of the contract or that in which the funds are spent;
- abstain from investing project funds in aggressive financial products or financial instruments that pose a counterparty risk.

RISK	HOW TO AVOID OR REDUCE THIS RISK
The funds paid by the Contracting Authority may not reach the project's implementing unit in time for implementation.	Ensure that the funds are channelled as directly as possible, without intermediary steps.
The funds paid by the Contracting Authority may be used to finance activities other than the project.	Use project-dedicated, specific bank accounts even if it is not required. Reconcile cash flow.
Unauthorised payment vouchers may be drafted.	Segregate the duties of payment preparation, payment authorisation and payment signature. Segregate accounting and cash custody duties. Check payment documents against the supporting documents. Use double signatures on bank accounts.

- Keep money coming in separate from money going out.
- Always give receipts for money received.
- Always obtain receipts for money paid out.
- Deposit surplus cash into the bank.
- Have properly laid down procedures for receiving cash.
- Restrict access to petty cash and the safe.
- Keep cash transactions to an absolute minimum.

SPECIFIC ISSUE: Bank reconciliations

What is the purpose of a bank reconciliation?

- To make sure that the organisation's own records agree with the bank's records.
- To pick up any errors or omissions made by the bank or the organisation.

Performing a bank reconciliation

1) Take the closing bank statement balance for a particular date (typically month-end) and compare it to the closing bank book balance for the same date.
2) If there is a difference between these two closing balance figures, it must be explained.

In practice, there will almost always be a difference due to timing delays, for example:

- Money paid into the bank which is not yet showing in the bank's records.
- Cheques issued to a supplier but not yet banked by the supplier.
- Bank charges and bank interest which get added to the bank statement by the bank periodically.
- Errors made either by the bank or when recording entries in the bank book.

What to do if there is a difference:

Item	In cashbook	On bank statement	Example	Action
Receipt	✔	✖	Cash received in the office, but not yet banked. Cash fraud?	Monitor bank statement (all cash received must be banked)
Receipt	✖	✔	Bank interest received. Donor grant transferred, no advice notice sent.	Enter into the cashbook once source identified.
Payment	✔	✖	Cheque sent to supplier, not yet presented to the bank.	Monitor bank statement. Contact supplier if older than two months.
Payment	✖	✔	Bank charges or bank interest paid.	Enter into the cashbook once source identified.
Cashbook error	✔	✖	Omission or duplication of a transaction. Figures incorrectly entered.	Correct the cashbook once error identified.
Bank statement error	✖	✔	Bank recording error. Cheque fraud.	Contact the bank.

1.5 BUDGET MONITORING

KEY MESSAGE: The budget is an essential project planning and monitoring tool

The budget for an MPF-funded grant is a forecast of the costs of the activities set out in the Contract.

The budget is therefore an essential part of the Contract. It is a tool for checking on implementation, and an essential part of the financial report.

If an amendment to the budget is required, the Beneficiary must communicate this in writing to the Contracting Authority.

RISK	HOW TO AVOID OR REDUCE THIS RISK
Actual expenditure may not be checked regularly against the budget, leading to cost underruns or overruns.	➢ Regularly check actual expenditure and forecast (from all Beneficiaries) against the budget.
The budget may be inadequate because the activities and resources required have not been analysed thoroughly.	➢ Draft budgets carefully, together with co-applicants, and involving staff working on both technical implementation as well as admin & finance (inter-department task).
Budgets may be unrealistic or may not be based on plausible assumptions.	➢ Ensure budgets are realistic and based on plausible assumptions and quotations from service providers.

1) **The budget is an essential control tool.**

The following problems may be experienced with the budget (sometimes due to external factors, e.g. COVID-19 outbreak):

- unauthorised budget overruns, which will be considered ineligible by the Contracting Authority;
- budget underruns, which suggest that the budget was incorrect and that funds have been committed to the project that might have been better used elsewhere;
- interpretation issues, which may cause the Contracting Authority to disallow some expenditure at the financial closure stage;
- the need to fund direct costs from indirect costs as they were not budgeted.

When drafting the budget, Beneficiaries should keep in mind some key principles:

The budget is a tool for financial compliance

The contractually agreed budget is a compliance tool. This means that the amounts for budget categories and lines are spending limits.

The budget is a planning and control tool

A budget helps to control expenditure by setting cost guidelines, benchmarks, estimates and criteria. It is essential that the budget properly reflects all projected expenditure in line with the activities financed by the Contract.

The budget will be mirrored in the financial report

Actual expenditure on implementing planned and agreed objectives and activities will be presented in the financial report, and will be compared with projected expenditure in the budget.

2) Obey the rules on budget changes.

There are rules on making changes to project budgets.

- The Coordinator must submit a proposal to amend the budget **in writing** to the Contracting Authority. The Contracting Authority will then assess whether or not an amendment to the contract is needed.
- Contracts may not be amended retroactively, and there are time limits.

There are cases in which a contract amendment is not required.

Subject to exceptions, the Beneficiary may make transfers:

(i) **between items within the same main budget heading**; or

(ii) **between main budget headings, up to a limit of 25%** of the initial amount for that main heading - both the origin and destination budget headings (see Article 9.4 of the General Conditions).

The Beneficiary may make these changes directly, but must inform the Contracting Authority in writing without delay.

The exceptions are changes to overheads, contingencies, sources and distribution of co-funding or in-kind contributions, which do require a contract amendment.

Any proposed request for changes in the Salaries budget heading should also be promptly communicated to the Contracting Authority.

Example

In the example below, it can be seen that

- **some variations between budget headings are above 25%** (they are indicated in red), for which a **contract amendment is needed;**
- if one budget heading is exceeded (i.e. subtotal, rather than individual budget lines), this has to be compensated elsewhere. The golden rule is that the **total cannot be exceeded.**

Budget for the Action	Budget (EUR)	Actual (EUR)	
1.1 Person A	30,000.00	30,000.00	
1.2 Person B	20,000.00	25,000.00	
Subtotal 1. Human Resources	**50,000.00**	**55,000.00**	*Exceeded by 10% (€ 5k)*
2.1 International travel	10,000.00	18,000.00	
2.2 Local travel	5,000.00	5,000.00	
Subtotal 2. Travel	**15,000.00**	**23,000.00**	*Exceeded by 53% (€ 8k)*
3.1 Computer equipment	50,000.00	50,000.00	
3.2 Machinery	150,000.00	160,000.00	
Subtotal 3. Equipment and supplies	**200,000.00**	**210,000.00**	*Exceeded by 5% (€ 10k)*
4.1 Consumables	15,000.00	5,000.00	
4.2 Electricity	5,000.00	5,000.00	
Subtotal 4. Local office	**20,000.00**	**10,000.00**	*Reduced by 50% (€ 10k)*
5.1 Publications	20,000.00	20,000.00	
5.2 Research	40,000.00	47,000.00	
Subtotal 5. Other costs, services	**60,000.00**	**67,000.00**	*Exceeded by 12% (€ 7k)*
6.1 Other X	10,000.00	0	
6.2 Other Y	15,000.00	5,000.00	
Subtotal 6. Other	**25,000.00**	**5,000.00**	*Reduced by 80% (€ 20k)*
Subtotal direct eligible costs	**370,000.00**	**370,000.00**	Total cannot be exceeded

Carefully examine the causal links between planned activities and projected costs. Begin by identifying activities, then list all the necessary resources in order to identify relevant qualitative and financial data.

- In the 'Justification' tab of the budget, document how the projected amount for costs has been arrived at.

- Make sure that the budget is clear, transparent and comprehensive.

- Make sure the budget is realistic. If it includes too many rough estimates and lump sums, it will not provide a proper tool for planning and control and there is a higher risk of over- or underestimates.

- Make sure that cost estimates are properly valued and that assumptions are plausible.

- Make sure budgeted expenditure is properly classified according to the activities in the Contract. Otherwise, overruns may occur on certain headings, which will result in ineligible expenditure.

- Ensure that all cost items are clearly defined and cannot give rise to confusion or misinterpretation about which heading and line they relate to. Ensure there is no possible overlap between different headings and lines.

- Quantify where appropriate; for example state the type and number of items to be purchased (e.g. equipment, tools, etc.), staff numbers, time required (hours, weeks, months) and measures (e.g. weight, distance, content, etc.) of resources to be consumed.

- Use appropriate cost and price data (item unit prices and costs).

- Ensure that the quantitative data budgeted are clearly defined. They should use the same measures to be used during implementation.

- Ensure that the budget uses principles coherent with the accounting policies used in the accounting records (for example, cash-based versus accrual accounting).

- Allocate costs correctly (for example, avoid including overhead-type items in direct expense lines).

Please refer to chapter 5.3 if the budget provides for non-cash contributions (“in kind”).

2. STAFF COSTS

KEY MESSAGE: Staff costs claimed should reflect actual staff costs incurred and actual time spent on project activities

The payroll is a significant cost that must be properly controlled.

Human resources are a major cost component for many projects and it is essential to control and account properly for these costs.

Critical aspects of payroll costs include:

- proper calculation of pay and compliance with national social security and related rules;
- adequate staff contracting;
- adequate systems to allocate staff costs to projects;
- adequate control of attendance;
- sound remuneration practices.

Salaries should correspond to those normally borne by the organisation, as indicated in the contract (no top-ups, extra hours, bonuses, nor salaries higher than normally paid).

A person whose salary is covered by the project should not receive other fees for additional tasks (e.g. expert/trainer etc.) in the project, unless in exceptional circumstances which received prior approval by the Contracting Authority.

Staff costs claimed should reflect actual staff costs incurred and actual time spent on project activities. Eligible staff costs can be calculated along the following general basis:

$$\frac{\text{Hours spent on project activities}}{\text{Total hours}} \times \text{Total salary costs}$$

Article 14.2 – Grant Conditions: the Beneficiary can claim "the cost of staff assigned to the Action, corresponding to actual gross salaries including social security charges and other remuneration-related costs; salaries and costs shall not exceed those normally borne by the Beneficiary(ies), unless it is justified by showing that it is essential to carry out the Action"

Article 16.9 (k) – Grant Conditions: The Beneficiary should keep "staff and payroll records such as contracts, salary statements and time sheets. For local staff recruited on fixed-term contracts, details of remuneration paid, duly substantiated by the person in charge locally, broken down into gross salary, social security charges, insurance and net salary. For expatriate and/or European-based staff (if the Action is implemented in Europe) analyses and breakdowns of expenditure per month of actual work, assessed on the basis of unit prices per verifiable block of time worked and broken down into gross salary, social security charges, insurance and net salary."

RISK	HOW TO AVOID OR REDUCE THIS RISK
It may be impossible to show how much time staff spent on the project.	➢ Set up a timesheet system to record and control the time spent by staff. Have the timesheets of all staff checked by a responsible individual (timesheets should always be signed by the employee and supervisor, either electronically or on paper). ➢ In addition to the above, keep travel documentation and boarding passes for expatriate staff working in beneficiary countries showing arrival and departure dates relating to the project.
The time reported by staff on timesheets may not be reliable.	➢ Ensure timesheets are reviewed by a responsible individual within the project (e.g. the team leader or the head of project support unit).
The actual salary costs may not be determined correctly or the amount may not be supported.	➢ Keep payroll records in accordance with the relevant national legislation. Draft payroll sheets by person and in total. ➢ Ensure that salary scales are in line with market levels. ➢ Ensure clearly drafted (and signed) employment contracts for all personnel.
The relevant social security rules and/or the relevant national employment legislation may not be obeyed	➢ Consider using a specialised payroll office.
Undue allowances (per diem and other) may be paid to staff and charged to the project.	➢ Ensure that any allowances paid to staff are justified. ➢ Ensure clear staff allowances policies.

1) Consider using timesheets even if the contract does not require them.

An effective timesheet system can help to meet several important objectives:

- ➢ Allocating staff costs to the project according to their actual time inputs.

- Allocating the work to the correct activity in the project.
- Checking that staff are actually present.
- Documenting the staff's work on the project.

Beneficiaries are encouraged to set up a timesheet system to manage staff time, even if this is not required in the Contractual Conditions.

Timesheet requirements may be more or less strict depending on the objectives.

For example, if staff work on several different projects during the same period, a stricter timesheet system may be needed than if they are hired to work exclusively on one project.

The next page presents basic measures which can be taken to make the timesheet system stricter.

2) Consider what makes a good time recording system.

Appropriate measures to make a timesheet system more effective include:

- Preparation by staff themselves
- Timely preparation
- Periodicity
- Data integrity
- Standardised format
- Review and approval
- Reconciliation with total time worked
- Use of time recording software

3) Make sure that project staff work in the contract period.

Staff costs for work performed outside of the Contract implementation period are ineligible.

Beneficiaries should inform staff of the start and end of the project implementation period, which is the only time they may work on the project (staff costs incurred after the end of the project for the preparation of the final report are not eligible!).

4) Make sure that social and tax laws are strictly obeyed.

Beneficiaries should never "by-pass" the required social security contributions and income taxes in an attempt to reduce project costs. Nor should project staff be allowed to evade these contributions to increase their net salary income.

The Beneficiary or its staff might face penalties imposed by the national authorities as a result.

There would also be an unacceptable risk of damaging the reputation of EU-funded /ICMPD-implemented projects in the country.

Keep sufficient documentation showing compliance with national social and tax legislations. For example:

- correctly drafted employment contracts, duly dated and signed by both parties;
- payroll sheets showing that gross and net pay tally for individual staff and for the entity as a whole;
- copies of tax returns where required by national legislation; and
- returns submitted to national authorities concerning social security and income taxes, reconciled with the payroll, and proof of payment to the authorities.

5) Always use sound practices for allowances.

Remember that the basic objective of paying allowances to project staff or others is to avoid onerous efforts to calculate and pay their individual expenses. Paying allowances that are not in line with reasonable reimbursement may cause various problems.

For example:

- Excessive training attendance allowances may attract unmotivated participants who may attend just for the allowance and not for the training itself.
- Excessive mission allowances may encourage project staff to arrange unnecessary missions which are not in the best interests of the project.

Appropriate measures must be taken by Beneficiaries to make sure that allowances are properly justified.

- For training attendance allowances, fix the allowance at a level compatible with reasonable reimbursement of expenses. Document the basis for fixing the allowance. Avoid paying “fees” or “remuneration” for attending training courses.
- Keep signed attendance lists.
- Request participants to provide feed-back on training courses.
- For mission allowances (per diems), remember to stick to the amounts approved in the contract budget and that the amounts published by the EC are the maximum. Beneficiaries can always pay lower amounts, for example, if the mission takes place in cheaper parts of the country or if the actual costs are lower.
- Approved maximum rates can be found here: https://ec.europa.eu/international-partnerships/system/files/per-diem-rates-20200201_en.pdf

6) Always avoid unclear or ambiguous arrangements!

Unclear arrangements are a potential source of risk. Beneficiaries are advised to challenge remuneration arrangements to ensure they are fully transparent.

For these reasons, Beneficiaries should be very prudent with this type of transaction. Beneficiaries who intend to arrange staff donations are advised to inform the Contracting Authority in advance.

Additional salaries and bonuses: In certain contexts, additional salaries (top-ups) or bonuses may be envisaged to be paid, for example, to staff seconded by national authorities or staff considered as well performing.

These should be, however, avoided as much as possible. If they really cannot be avoided, Beneficiaries should make sure to timely inform ICMPD and obtain prior approval.

SPECIFIC ISSUE: Claiming for staff leave and holidays

The conditions of grant contract mostly follow these principles:

- actual basis: the Contracting Authority reimburses the real salary cost of the employee, i.e. their gross pay plus social security and social insurance.
- generally accepted accounting principles: the project's accounting records must be kept in accordance with generally accepted accounting principles in the country of the Beneficiary.

As most countries follow the accrual accounting principle, this is the method Beneficiaries will most often need to follow.

Examples of accrual accounting for paying compensation for leave entitlement

- A project employee is entitled, under national legislation, to 30 days paid holiday leave per year worked. The project period is 10 months and the employee takes her/his 30 vacation days during the period of the project.

Under the accrual accounting principle, the share of the salary cost of leave accruing to the project is 30 days x 10/12, i.e. 25 days of remuneration (and not the 30 days taken during the project period).

- If the same project employee does not take leave during the project period but prefers to take it after the project ends, the share of the salary cost of leave accruing to the project is still 25 days of remuneration (and not zero).

3. PROCUREMENT

KEY MESSAGE: Procurement is crucial: if it does not comply with the rules, the Contracting Authority may recover the funds

Sound financial management is a key principle and requires MPF funds to be used in line with the principles of economy, efficiency and effectiveness.

Good procurement is vital to achieving these objectives.

ICMPD pays great attention to procurement. Procurement fraud is thought to be the single largest source of misappropriation of public funds.

If you fail to comply fully with contractual obligations on procurement, the project expenditure could be ineligible and this may result in the Contracting Authority recovering the funds.

If the implementation of an Action requires procurement by the Beneficiary, the contract must:

- be awarded to the most cost-effective tender (i.e. the tender offering the best price-quality ratio);
- be awarded in accordance with transparency and fair competition, avoiding any conflicts of interest;
- <u>not</u> be split artificially to circumvent procurement thresholds.

The Beneficiary must respect the following basic principles:

- Where an open tender procedure is not launched, the Beneficiary shall justify the choice of tenderers that are invited to submit an offer.
- The Beneficiary shall evaluate the offers received against objective criteria which enable measuring the quality of the offers and which takes into account the price.
- The Beneficiary shall keep sufficient and appropriate documentation with regard to the procedures applied and which justify the decision on the pre-selection of tenderers and the award decision.

The Beneficiary **<u>must</u>** be able to demonstrate that these requirements have been respected in every instance.

Article 16.9 (b)-(c) - Grant Conditions: The Beneficiary shall keep "proof of procurement procedures such as tendering documents, bids from tenderers and evaluation reports; proof of commitments such as contracts and order form".

CASE STUDY

The NGO "ALTERNOVI" managed a number of MPF projects in Greece. Most of these projects involved substantial spending on supplies and equipment.

The auditors engaged by the Contracting Authority noted that, for a number of the projects, many of the procurement contracts for supplies and equipment had been awarded to the same company. When they reviewed a sample of procurement contracts awarded to this particular supplier, the auditors found a number of issues, such as contracts being signed before the date set for evaluating the bids, documents missing in tender procedures, etc. These issues were reported to the Contracting Authority. The Contracting Authority decided to investigate further, and found that a close relative of the NGO's Director had an interest in the supplier in question.

POTENTIAL IMPACT: The full cost of the contract awarded to the supplier could be deemed ineligible, and not recovered from remaining grant payments. Depending on the severity of the issue and the conflict assessed, the sum of all contracts awarded to this supplier may be deemed ineligible, with additional testing performed at verification over procurement controls.

HOW TO AVOID THIS: You should develop a conflict of interest policy to ensure that key staff or management within procurement decisions are independent to the contract decision. Conflicts of interest where they arise can be managed but different staff should be involved in the tender document and the marking criteria to award the contract should be followed and retained as evidence.

RISK	HOW TO AVOID OR REDUCE THIS RISK
The procurement process may not be transparent.	➢ Ensure that the tender/invitation documents are clear. ➢ Establish clear selection criteria beforehand and ensure that they are known to all stakeholders. ➢ Ensure the entire procurement process is clearly documented. Keep minutes of evaluation sessions, explaining selection decisions.
The procurement process may not obey the principles of non-discrimination and equal treatment.	➢ Ensure that the bidding process is as open as possible and is accessible to all potential suppliers. ➢ Dispatch invitations / publish notices early enough to give interested suppliers time to respond. Ensure that invitations cover the market as widely as possible. ➢ Ensure the same information is given to all participants at the same time. ➢ Ensure that all offers are opened at the same time in a controlled environment.
The evaluation process may not be objective or impartial.	➢ Make sure that none of the evaluators has a conflict of interest. ➢ Ensure that the selection and award criteria are correctly applied. ➢ Ensure that the offers are evaluated only after the date set for their submission.
The wrong procurement procedure may be applied.	➢ Ensure that the procedure applied provides at least the same level of competition as that provided for in the Contract signed with the Contracting Authority. ➢ Check that the procedure applied is the right one according to the monetary thresholds specified in the Contract.
There may be irregularities in applying the required competitive procedures.	➢ Plan procurement well in advance so as to limit the risk of irregularities. ➢ Make sure that all goods/services of a similar nature required in the same time frame are considered together when calculating whether they exceed the monetary threshold that determines the type of procurement procedure to be used.
Conflicts of interest may arise.	➢ Ask evaluators to sign a declaration that they have no conflict of interest. ➢ Ensure that tenderers are unrelated.
The contract may not be awarded in line with appropriate criteria.	➢ Giving reasons, set out award criteria that take into consideration the type of contract and the type of item to be procured.

1) Plan procurement well in advance!

You should allow enough time to execute the procurement process properly and in accordance with the rules. If you do not plan procurement long enough in advance, you may be tempted to "cut corners" to make up time. This increases the risk of irregularities. Prepare a procurement plan at the start of the contract.

What are the rules?

The rules are explained in Annex IV to the Grant Contract. These are minimum requirements; stricter local rules/legislation may be followed.

2) **The <u>entire</u> process should be documented.**

<u>In order to clearly document the procurement process, it is not enough to keep copies of three offers on file. Beneficiaries should be able to show how they managed the entire process.</u>

It is good practice to draft a document describing the steps followed, from the initial identification of suppliers through to the final contracting decision. The document does not need to be long and could take the form of a brief 'note for the file', with all key supporting documents attached:

Keeping a comprehensive dossier will help to demonstrate the management of the entire process at a later date.

KEY MESSAGE: Proof of procurement procedures is essential!

3) **Do not forget the rule of origin! Failure to comply with them is a frequent cause of ineligibility.**

<u>Basic principle</u>:

Participation in tender procedures managed by the Beneficiary(ies) is open on equal terms to all natural and legal persons of the Member States and the States and territories of regions expressly covered and/or allowed by the Grant Contract.

<u>What does "origin" mean?</u>

Under the rules, goods 'originate' not in the country of the supplier but in the country <u>where the goods were last produced or assembled</u>.

That is what is meant by their 'country of origin'.

<u>Certificate of origin</u>:

The origin of the goods must be attested to by a "certificate of origin", i.e. an official document delivered by the relevant authorities of the country of origin of the supplies (for example, a Chamber of Commerce).

A certificate of origin is required only for equipment or vehicles with a unit cost in excess of EUR 5,000 (but please note that the rules of origin must be obeyed even for expenditure below this amount).

Without a certificate of origin, the Contracting Authority may consider the expenditure ineligible.

4) Make sure that the contract is in line with the procurement process!

All the information given in the contract with the supplier/ consultant/ contractor should match that given during the procurement process.

Any deviation from the procurement documents when drafting the contract (for example, stating higher quantities or higher prices) may raise doubts about whether the procedure was correctly followed.

This also means that contracts must not be signed before the procurement process is complete.

For the same reason, if you start to work with the supplier/ consultant/ contractor before procurement is complete the expenditure will be ineligible.

5) Make sure that the contract is signed during the correct period.

Beneficiaries may prepare the procurement procedure as early as they wish (even before the official period for implementing the action starts). However, the contract may not be awarded outside of the official implementation period.

The Beneficiaries must award (sign) the goods/service delivery contracts during the implementation period stated in the special conditions of the Grant Contract, and procured good and services should also be delivered during the same period.

6) Do not let the formalities overshadow the basic substance!

Procurement rules should not be viewed as merely a set of administrative formalities. The rules are there to ensure a transparent, equal opportunity, competitive process which offers the best value for money.

Example 1: In certain countries, local suppliers may not have sufficient experience with responding to public tender requests. Project staff might have to provide template documents. However, an issue would arise if the project staff drafted written offers themselves, "as if" they were drafted by local suppliers, just to have formal-looking documentation for its project files.

In an audit, the "made-up" offers might be considered fraudulent. In such a situation, the project staff should document any assistance given in relation to the documents submitted as part of the tender and any negotiations held, and do so in a way that properly reflects the reality.

Example 2: If there is not much time, project staff may be tempted to split a large procurement into several requests of a low individual value so they can use a simplified procedure instead of a lengthier competitive tender procedure.

In doing so, they have not complied with the fundamental principles of good, transparent procurement in reality.

7) In case of doubt, contact the Contracting Authority.

From time to time during a procurement procedure, Beneficiaries might encounter a specific situation not covered in the Contract. When in doubt, Beneficiaries should not hesitate to contact the Contracting Authority, in writing, to obtain clarification about the required procedure.

Note that there are specific rules in Annex IV for certain types of contracts:

Section 7) covers **Negotiated Procedures.** A negotiated procedure may only be used in exceptional circumstances. Some examples are as follows (but always refer to Annex IV):

- for the purposes of humanitarian aid / civil protection operations / crisis management aid;

- where contracts extend on-going activities;
- (in some cases) for additional deliveries by the original supplier or additional works not included in the initial contract;
- where the tender procedure has been unsuccessful, that is where no qualitatively and/or financially worthwhile tender has been received;
- for reasons connected with the protection of exclusive rights;
- for contracts whose performance must be accompanied by special security measures;
- where a new contract has to be concluded after early termination of an existing contract.

KEY MESSAGE: For procurement - always refer to Annex IV of the Grant Contract for information on thresholds

COMMON PROCUREMENT AUDIT FINDINGS

- Insufficient justification for use of negotiated procedure
- Inadequate tendering procedure used
- Insufficient documentation of the procedure
- Substantial amendment to contract scope after tender publication
- Inappropriate assessment of bids
- Contract price differs from price offered
- Contract not awarded to lowest-priced compliant bidder
- Non-compliance with nationality and origin rules
- ‘Artificial Splitting’ to remain below thresholds

4. TRAVEL COSTS

KEY MESSAGE: Travel costs claimed must not exceed actual costs incurred

As a key project budget area it is essential that the rules surrounding travel costs are clearly understood.

Travel costs include all costs incurred by staff or other persons in relation to project activity related trips during the project implementation period.

Travel costs may be claimed using EITHER:

1) As the amount of actual costs incurred (but not exceeding in total the corresponding Per Diem rates published by the European Commission at the time of mission)

OR

2) Using Per Diem rate allowances.

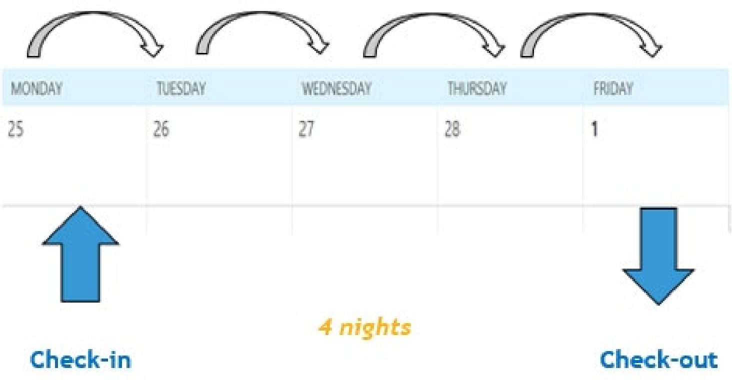
Actual travel costs should follow the same general principles of cost-effectiveness and transparency as noted in the previous procurement module.

<u>**Using Per Diem allowances**</u>

Per Diems cover accommodation, meals, local travel within the place of mission and sundry expenses.

The Per Diem allowance is calculated in Euro according to standard rates for each night spent away from an individual's home using the following basic formula:

Per Diem daily rate x numbers of nights away



Per Diem rates are based on the destination country for travel and should not exceed the EU per diem rates (but can be lower) and found here:

https://ec.europa.eu/international-partnerships/system/files/per-diem-rates-20200201_en.pdf

The number of nights away would include any nights away on account of time spent travelling. For example, if a member of staff needed to stay overnight for a meeting which begun early the next morning, a Per Diem may be claimed to cover the costs incurred of this night's stay, even if no project based activities had taken place on that day.

For a one-day mission with no night spent away, the common practice is to grant half the Per Diem.

Beneficiaries are permitted to follow their own policy if they have one, as long as it does not exceed the EU Per Diem rates.

If Per Diem rates are claimed, then no additional actual travel-related costs may be reimbursed.

For example, a staff member cannot claim Per Diem rates and also be reimbursed for meals purchased during the trip, since these costs are already (normally) included within the Per Diem rate allowance. Similarly, a project participant cannot receive a full Per Diem and e.g. have their meals and/or accommodation covered by the budget of the activity they are participating in (e.g. training). Deductions should be made accordingly (usually 50% for accommodation, 10% for each meal (breakfast, lunch, dinner) and 20% for sundry expenses and local travel). No duplications of costs are allowed whatsoever.

KEY MESSAGE: Per Diem rates should not exceed those of your usual policies or the European Commission's published rates.

CASE STUDY

As part of a project coordinated by a NGO based in Germany, multi-day training activity sessions for local grassroots organizations based in Southern Europe were run by a group of staff trainers. Upon return to the NGO headquarters, the staff involved in the mission submitted expense claim forms detailing the actual travel, hotel and subsistence costs incurred during the mission. The NGO then reimbursed the staff for the costs they incurred.

However, when reporting these travel costs in the project financial report, the NGO applied the following formula:

Per diem daily rate x numbers of staff x numbers of nights away

POTENTIAL IMPACT: In an expenditure verification of the project launched by the Contracting Authority, the auditors noted that the amounts paid to staff per payment vouchers provided did not agree to amounts claimed in the financial report. Consequently, the auditors raised exceptions in their audit report to the Contracting Authority, determining the difference between the costs claimed in the financial report and the actual costs incurred as ineligible.

HOW TO AVOID THIS: The Beneficiary could have paid the participants the Per Diems instead of actual costs. In this case, the full Per Diems could be claimed in the financial report. If the Beneficiary only wanted to reimburse the participants for actual costs, then only these actual costs could be claimed in the financial report. The Beneficiary cannot make a 'profit' by claiming more than they paid out.

RISK	HOW TO AVOID OR REDUCE THIS RISK
It may not be possible to demonstrate the actual travel costs incurred during a mission For example, staff may lose travel receipts	➢ Require original supporting documentation to be submitted along with a travel expense form before travel expenses are reimbursed to participants ➢ Require travel expense claim forms to be submitted within a set period from the end of the travel, for example 60 days, to reduce the risk that original supporting documentation is lost
The connection to the project activities for the travel may not be clear	➢ Ensure that the purpose of each travel would be clear to an external party; for example through meeting minutes, training participants' lists, mission reports
Per diem rates are claimed in the financial report, but lower actual travel costs are reimbursed to staff	➢ If per diem rates are to be used, ensure that project participants are reimbursed the same rate

Incorrect number of days of per diems claimed	➢ Make sure that project participants are aware of the appropriate number of days of per diems which may be claimed for project related travel ➢ Ensure that travel expense forms are reviewed and authorised before expenses are reimbursed
Incorrect per diem rates are claimed	➢ Use latest publication of per diem rates per EC website when calculating travel costs (unless using own rates, which cannot exceed the EC rates).

TRAVEL COSTS KEY DOCUMENTS

- *Invoices / Receipts / Tickets*
  - Hotel invoice to prove overnight stay
  - Boarding pass + plane ticket, train/bus tickets etc. to prove travel
  - MUST include the names of the people travelling (if applicable)

- *Travel expense claim forms*

- *Mission report, minutes from meetings held, training session participants list*
  - Signed participants sheets to prove participation in an event (if applicable)

What to do if an event is cancelled? Cancellation penalties are generally not eligible, as refundable tickets should have been purchased. The exception is if the cancellation is due to force majeure, e.g. if due to COVID-19 restrictions, in which case the cause for cancellation, the attempts to retrieve funds etc. must be duly documented.

5. OTHER

KEY MESSAGE Check the flat rate percentage of indirect costs in Article 3 of the Special Conditions

5.1 ADMINISTRATIVE COSTS

Administrative costs or indirect costs are overhead costs incurred in connection with the eligible direct costs of the action.

They are calculated as a flat rate percentage of total eligible direct costs for the project, as determined in the Special Conditions to the Grant Contract.

Examples of costs which would fall under this budget heading are:

- maintenance
- utilities
- office insurance
- office supplies
- photocopying
- postage
- telephone / internet

The flat rate percentage is intended to cover a proportion of the above costs and is calculated as:

Total eligible project direct costs x flat rate % = Total eligible indirect costs

Since a flat rate for administrative costs is eligible, <u>no supporting documentation needs to be provided in order to support these costs</u>.

There are no benefits to claiming less than the percentage stated in the Special Conditions.

The amount allocated to indirect costs cannot be amended after the signing of the contract.

Article 14.7 – General Conditions: "The indirect costs for the action are those eligible costs which may not be identified as specific costs directly linked to the implementation of the action and may not be booked to it directly according to the conditions of eligibility in Article 14.1. However, they are incurred by the Beneficiary (ies) in connection with the eligible direct costs for the action. <u>They may not include ineligible costs as referred to in Article 14.9 or costs already declared under another costs item or heading of the budget of this Contract."</u>

Article 14.7 – General Conditions: "A fixed percentage of the total amount of direct eligible costs of the Action not exceeding the percentage laid down in Article 3 of the Special Conditions may be claimed to cover indirect costs for the Action. <u>Flat-rate funding in respect of indirect costs does not need to be supported by accounting documents</u>."

RISK	HOW TO AVOID OR REDUCE THIS RISK
Incorrect indirect costs flat rate percentage applied	➢ Check the Special Conditions to the Grant Contract to ensure the correct indirect costs percentage to apply
Indirect costs calculated based on budgeted total direct costs	➢ Total indirect costs should be calculated based on total actual direct costs incurred
Indirect costs calculated and charged to project on a monthly basis and this does not agree to indirect costs calculated for the project as a whole	➢ Ensure that upon compilation of the final financial report, the percentage of indirect costs claimed is based on the total direct costs incurred across the project implementation period, posting an adjustment journal if necessary

5.2 CONTINGENCIES

If your budget includes Contingencies costs, please remember to obtain prior approval by the Contracting Authority before using them.

KEY MESSAGE: Use of Contingencies needs to be pre-approved

5.3 EXCHANGE RATE

KEY MESSAGE: Pay attention to currency rules – use the InfoEuro rates on the dates on the invoice

There are two types of currency conversion that need to be considered:

- The conversion of the accounting records from local currency to Euro for reporting purposes;
- The conversion of individual items incurred in other currencies into local currency for recording in the accounts.

As such, at the beginning of the project, Beneficiaries should check the Contractual Conditions to ascertain:

1) The currency to be used in drafting the project's financial report;
2) The rules to be followed for currency conversion.

Unless otherwise states in the Special Conditions to the grant contract, the financial report should be prepared in euro.

Any expenditure recorded in the accounts in a currency other than euro, should be converted using rates given per **Inforeuro** as **at the date of the invoice**.

Rates can be found at:

https://ec.europa.eu/info/funding-tenders/how-eu-funding-works/information-contractors-and-beneficiaries/exchange-rate-inforeuro_en

Currency exchange losses are not eligible costs for grant contracts.

KEY MESSAGE: Understand the exchange rate rules

Article 15.8 - General Conditions: "In the event of an exceptional exchange-rate fluctuation, the parties shall consult each other with a view to amending the Action in order to lessen the impact of such a fluctuation. Where necessary, the Contracting Authority may take additional measures such as terminating the Contract."

Article 15.8 - General Conditions: "Costs incurred in other currencies than euro shall be converted using the official European Commission monthly exchange rate, Inforeuro, by using the date of invoice, unless otherwise stipulated in the Special Conditions."

Article 15.8 - General Conditions: "The Contracting Authority shall make payments in euro and reports shall be submitted in euro".

Article 14.9 - General Conditions: "The following costs shall not be considered eligible: e) currency exchange losses".

RISK	HOW TO AVOID OR REDUCE THIS RISK
Incorrect exchange rate applied to record expenditure in financial report	➢ Ensure all staff (of all Beneficiaries!) are aware of the exchange rate requirements to translate expenditure into euro for the financial report ➢ Expenditure should be translated at the Inforeuro rate at the date of the invoice received
The same rate used to record expenditure within the Beneficiary's accounts is used to report expenditure in the financial report	➢ Expenditure should be translated at the Inforeuro rate at the date of the invoice received ➢ Any resulting gain or loss is determined ineligible and should not be claimed within the financial report

WORKED EXAMPLE

A Beneficiary based in Germany purchased computers from Sweden for SEK 50,000 for use within an ICMPD - funded project.

The date of the purchase invoice was 05/03/2021. The computers were received and a Goods Received Note produced on the 12/04/2021. The supplier's invoice was dated 01/04/2021. Payment was made to the supplier 23/04/2021. The Beneficiary records expenditure incurred in a foreign currency within their accounts at the exchange rate applied by their bank. The exchange rate used to make payment was 1 SEK: 0.09605 EUR. There are no derogations from the terms of the agreement per the General Conditions within the Special Conditions.

GOOD PRACTICE: In the Beneficiary's accounts: The purchase would be recorded in line with the Beneficiary's financial policies at a rate of 1 SEK : 0.09874 EUR. As such, an amount of 50,000 x 0.09874 = 4,937.22 EUR will be recorded within the Beneficiary's accounts

In the draft financial report: The purchase would be recorded using the Inforeuro rate at the date of the invoice. (01/04/2021). The applicable rate was 1 SEK : 0.09766 EUR. As such, an amount of 50,000 x 0.09766 = 4,883.15 EUR should be claimed in the financial report. The difference, which represents an exchange rate loss of 4,937.22 – 4,883.15 = 54.07 EUR is ineligible and so may not be claimed in the financial report.

WORKED EXAMPLE

A Denmark-based INGO records expenditure in DKK within its accounting records. The INGO purchases specialized equipment from Norway for NOK 120,000 for use within an MPF project.

The supplier's invoice was dated 06/11/2020. Payment was made to the supplier 08/11/2020.

The Beneficiary records expenditure incurred in a foreign currency within their accounts at the exchange rate applied by their bank. The exchange rate used to make payment was 1 DKK : 1.34624 NOK.

There are no derogations from the terms of the agreement per the General Conditions within the Special Conditions.

GOOD PRACTICE: In the Beneficiary's accounts: The purchase would be recorded in line with the Beneficiary's financial policies at a rate of 1 DKK : 1.34624 NOK. As such, an amount of 120,000 / 1.34624 = 89,072.10 DKK will be recorded within the Beneficiary's accounts

In the draft financial report: The purchase would be recorded using the Inforeuro rate at the date of the invoice (06/11/2020). The applicable rate taken from Inforeuro was 1 EUR : 10.8853 NOK. As such, an amount of 120,000 / 10.8853 = 11,016.00 EUR should be claimed in the financial report.

The above methodology may result in an exchange rate gain or loss (i.e. the EUR amount may be equivalent to more or less than 89,072.10 DKK). This difference would be ineligible and so may not be claimed in the financial report.

5.4 CONTRIBUTIONS IN KIND

KEY MESSAGE: If the Grant Contract includes contributions in kind, these must be included in the financial report.

Contributions in-kind are **non-cash** (i.e. goods or services) inputs to a project for which no cash payment has been made.

Examples include:

- A professional donating their time to the project
- Use of premise or venue for project activities without payment
- Equipment donated for use within the project

A Beneficiary should clearly state the intention to use in-kind contribution as co-financing for the project in the project proposal (budget). If approved by the Contracting Authority, such in-kind contribution shall be mentioned in the Special Conditions as well as in Annex III – Budget of the Grant Contract.

If the Special Conditions do not state otherwise, contributions in-kind should not be considered actual project expenditure and may not be considered as a form of co-financing for the project.

However, if the Grant Contract does include in-kind contributions, they **must be included in the financial report**.

If the project includes contributions in-kind, the Beneficiary must:

- Quantify their value;
- Record the actual value of the contributions in kind in the project's bookkeeping records separately from project expenditure;
- Report the actual value of the contributions in kind separately from project expenditure in the financial report.

The valuation of contributions in kind should be properly documented. Contributions in kind should be valued at market value. The Beneficiary should detail the items and quantities contributed and their market value so that the contributions in kind can be checked.

For example:

- Time donated by a professional should be valued at the rate they would ordinarily charge for their services
- The use of premises or venue should be valued at the price you would pay to rent such a space ordinarily
- Donated goods should be valued at the price you would pay for them if they were not donated

KEY MESSAGE: Understand the Contractual Conditions for Contributions in Kind if relevant (list these separately in Annex III and apply local tax laws)

RISK	HOW TO AVOID OR REDUCE THIS RISK
Contributions in kind not included in the Grant Contract are declared in the Financial Report	➢ Ensure that any contribution in kind expected to the project is determined at the budgeting stage and included in the Special Conditions and Annex III - Budget to the Grant Contract;

	➢ Any contribution in kind not included in the Grant Contract may not be treated as co-financing to the project and should not be included in the Financial Report.
Contributions in kind included within the Grant Contract are not disclosed in the Financial Report	➢ When compiling the Financial Report, check the Special Conditions to the Grant Contract to determine whether contributions in kind should be disclosed. Such contributions in kind would be included in Annex III – Budget to the Grant Contract.
Contributions in kind received valued inappropriately	➢ Ensure that contributions in kind are valued at market value in both the accounting recorded and within the Financial Report.
No supporting documentation maintained to justify the valuation of contributions in kind	➢ Ensure that proper supporting documentation is kept to support the valuation of contributions in kind declared. ➢ Supporting documentation should clearly demonstrate the ordinary market value for the good or service if not donated.

5.5 SUB-GRANTING

What is the difference between sub-granting and sub-contracting?

Sub-granting (also defined as '*financial support to third parties*') is the award of a grant to a third party, i.e. re-granting a portion of the project budget. The third party is selected based on an appropriate award procedure, and the Grant Contract stipulates clear conditions for the spending of the grant. The sub-grantee has reporting requirements to the grantor which must be met. The final product belongs to the subgrantee.

Sub-contracting is instead the process of outsourcing a particular service to a supplier. In this case, an appropriate procurement procedure must be carried out, in accordance with Annex IV. The final product belongs to the entity subcontracting the service.

KEY MESSAGE: Maximum award of €60,000 per third party with additional reporting requirements. Understand the Contractual Conditions (articles 10.4 to 10.8 of the General Conditions).

Which supporting documents will be requested in case of sub-granting?

The Coordinator should submit a report to the Contracting Authority detailing the following:

- List of all sub-grants awarded, including:
    - Award procedures;
    - Identities of the sub-grantees;
    - Amount awarded to sub-grantee;
    - Results expected;
    - Activities carried out / Problems encountered / Solutions found;
    - Timetable of the activities which still need to be carried out.

6. REPORTING

6.1 PAYMENT REQUEST

KEY MESSAGE: Understand the requirements for Payment requests especially around pre-financing

What happens if the less than 70% has been spent?

If the expenditure incurred is less than 70% of the last instalment, **"the further pre-financing payment shall be reduced by the amount corresponding to the difference between the 70% of the previous pre-financing payment and the part of the expenditure actually incurred which is financed by the Contracting Authority."**

Example:

Last instalment:	€ 100,000
70% of instalment:	€ 70,000
Expenditure incurred:	**€ 60,000**
Next instalment due:	€ 100,000

HOW MUCH SHOULD BE REQUESTED?

Answer

Reduce by (€70k - €60k):	(€ 10,000)
Next instalment to request:	**€ 90,000**

If the expenditure incurred is <u>less than 70%</u> of the last instalment, *"(…) the further pre-financing payment shall be reduced by the amount corresponding to the difference between the 70% of the previous pre-financing payment and the part of the expenditure actually incurred which is financed by the Contracting Authority."*

*15.3. Any payment request shall be drafted using the **model in Annex V** and shall be accompanied by:*

a) a narrative and financial report in line with Article 2;

b) a forecast budget for the following reporting period in case of a request for further pre-financing based on Annex VI or, if applicable under the provisions of Article 7 of the Special Conditions, Annex X, and;

c) for every twelve months of implementation, an expenditure verification report covering the past twelve months of implementation period.

15.1. General Conditions - The payments schedule, as set out in Article 4 of the Special Conditions shall be in accordance with the following:

(i) an initial pre-financing payment of the part of the Action financed by the Contracting Authority based on the budget forecast for the first reporting period defined in Article 4.1 of the Special Conditions (excluding contingencies) according to the pre-financing rate set out in Article 4.3 of the Special Conditions;

(ii) if applicable, any further pre-financing payments of the part of the Action financed by the Contracting Authority based on the budget forecast for the next reporting period (excluding non-authorised contingencies) according to the pre-financing rate set out in Article 4.3 of the Special Conditions:

- *the reporting period is defined in Article 4.1 of the Special Conditions;*
- *within 60 days following the end of any reporting period, the Coordinator shall present an interim narrative and financial report in accordance with Article 2 or, if unable to do so, it shall inform the Contracting Authority of the reasons and provide a summary of progress of the Action;*
- *if at the end of the reporting period the part of the expenditure actually incurred which is financed by the Contracting Authority is less than 70% of the previous payment (and 100% of any previous payments), the further pre-financing payment shall be reduced by the amount corresponding to the difference between the 70% of the previous pre-financing payment and the part of the expenditure actually incurred which is financed by the Contracting Authority;*
- *the Coordinator may submit a request for further pre-financing payment before the end of the reporting period, when the part of the expenditure actually incurred which is financed by the Contracting Authority is more than 70% of the previous payment (and 100% of any previous payments). In this case, the following reporting period starts anew from the end date of the period covered by this payment request;*

(iii) the balance of the final amount of the grant.

KEY MESSAGE: Financial reporting is fundamental to your receipt of the Grant

All ICMPD grant contracts require the Beneficiary to submit financial reports on the project to the Contracting Authority.

Such reports have several purposes:

- to allow the Contracting Authority to check that the funds have been used in accordance with the objectives, activities and budget agreed in the Contract;
- for interim financial reports, to inform the Contracting Authority of the progress of the activities and budget execution;
- to provide the Contracting Authority with the information it needs to determine the final amount of the MPF contribution to the project.

A final financial report, covering the entire project period, is always required. Interim financial reports are also required in most cases.

The Beneficiary should pay close attention to the reporting requirements as stated in their Grant Contract (Article 2.1 of the General Conditions and Article 7 of the Special Conditions) and ensure that all project staff (of all Beneficiaries!) are aware of reporting requirements and deadlines.

Failure to submit the requisite reports may result in the Contracting Authority's terminating the contract and recovering the amounts already paid but unreported.

For MPF-funded projects, unless otherwise stated in the Special Conditions, **interim reports should be submitted no later than 60 days after the end of the reporting period** and the **final report should be submitted no later than 90 days** after the end of the implementation period (i.e. end of the project).

CASE STUDY

A project was implemented by a public sector body in Lithuania. During a check on the project's first interim financial report, the Contracting Authority found that it had been drawn up using USD, instead of euros as specified in the Contractual Conditions. The financial report also used the accounting classifications used internally by the Beneficiary, instead of following the headings and items used in the budget for the project. It was therefore impossible to compare the financial report and the budget.

In addition, the Contract stipulated that the project would be 40% financed by the government of the country. However, the interim financial report only covered expenditure financed by =MPF funds, omitting all information about the use of the government funding.

POTENTIAL IMPACT: The Contracting Authority asked the Recipient to re-draft its financial report and suspended payments to the project in the meantime. It took over six months to resubmit the interim financial report and have it checked by external auditors. During that time, because MPF funding was suspended, the project had to be put 'on hold'.

HOW TO AVOID THIS: The Beneficiary should make themselves aware of the Grant Contract conditions, particularly if this is the first time they have implemented an MPF project. If anything is unclear, refer to the Contract or seek guidance from ICMPD before the project reporting period has ended.

6.2 FINANCIAL AND NARRATIVE REPORTING

KEY MESSAGE: Financial reporting should cover the whole project (not just the MPFfunded part) and contain narrative and financial information.

Article 16.2 – General Conditions: "The Coordinator shall ensure that any financial report as required under Article 2 can be properly and easily reconciled to the accounting and bookkeeping system and to the underlying accounting and other relevant records. For this purpose the Beneficiary(ies) shall prepare and keep appropriate reconciliations, supporting schedules, analyses and breakdowns for inspection and verification including the costs afforded by the partners to the Action."

Article 2.1 – General Conditions: "The Coordinator shall [...] draw up consolidated interim and final reports. These reports shall:

a) cover the Action as a whole, regardless of which part of it is financed by the Contracting Authority

b) consist of a narrative and a financial report (drafted using the templates provided in Annex VI) (...)"

Article 15.2 – General Conditions: "The Coordinator shall submit the final report to the Contracting Authority no later than three months after the end of the implementation period as defined in Article 2 of the Special Conditions unless otherwise provided for in the Special Conditions."

RISK	HOW TO AVOID OR REDUCE THIS RISK
Financial reports may not be drafted in accordance with the Contractual Conditions, or at all. This could cause the Contracting Authority to cancel the Contract and recover any payments already made.	➢ Ensure that the accounting records are kept up-to-date and that the financial reports are drafted by the deadline set in the Contract.
There may be no trail from the financial report to the accounting records and/or to the underlying supporting documents. This could lead the Contracting Authority to recover any expenses that have not been substantiated.	➢ Ensure that the financial reports agree with the underlying accounting records. ➢ Ensure there is a proper trail from the accounting records to the supporting documents.
The financial report may not mirror the classification (budget headings/lines) used in the budget. This could cause the Contracting Authority to reject the financial report.	➢ Ensure the financial report mirrors the classification (budget headings/lines) used in the budget and allows actual-to-budget comparison.
The financial report may not be drafted using the correct currency. This could lead the Contracting Authority to reject the financial report.	➢ Check which currency is stipulated in the Contract. ➢ Ensure currency conversions follow the rules laid down in the Contract.
The financial report may not cover all sources of funding for the project. This could lead the Contracting Authority to reject the financial report.	➢ Ensure the financial report covers all funding sources.

1) Drafting financial reports is a must!

All grant contracts require the Beneficiary to submit financial reports to the Contracting Authority.

Failure to submit these reports may cause the Contracting Authority to terminate the contract and to recover any amounts already paid and not substantiated.

If the project is audited, the lack of a financial report may cause the auditors to issue a disclaimer report (declaring that it is impossible to formulate an opinion on the project's financial report).

This could result in the Contracting Authority deciding to recover any funds paid.

2) The financial report must tie in with the accounting records.

Together with the financial report, and also for reports which do not require an expenditure verification, the Coordinator shall submit a 'List of Incidentals' (also defined 'List of Incidentals' or 'Breakdown of Expenditure'). For more info on the information to be included, please refer to section '7. Preparing for an Expenditure Verification'.

Beneficiaries should arrange for a clear audit trail from the financial report to the accounting records and the underlying supporting documents.

If there is no proper audit trail, any auditors might declare the financial report to be unauditable. The consequences for the Beneficiary might be the same as if no financial report was submitted at all.

Ideally, the financial report should directly tally with the accounting records, account by account, line by line, without any addition, grouping, adjustment or omission.

If this is not possible, the Beneficiary should at least draft a clear reconciliation between the two. This reconciliation should be kept in the project documentation.

3) Financial reports must mirror the classification used in the budget.

It is essential to draft the financial report using the same classifications as in the agreed budget.

This budget, annexed to the Contract or approved in later Amendments, is the only budget version that matters.

This requirement is vital to allow budgeted and actual expenditure to be compared.

4) Financial reports must be drafted in the correct currency.

It is essential to draft the financial report in the same currency as that used in the agreed budget, the euro.

The currency is specified in the special conditions of the Contract. It is the currency in which the MPF contribution is denominated.

This requirement is vital to allow budgeted and actual expenditure to be compared.

Beneficiaries must follow the rules laid down in the Contract when converting expenditure in local currency into the reporting currency.

5) Financial reports must cover all sources of project funding.

The financial report must cover the entire project and not just that part of it financed by the MPF.

The General Conditions require that "the financial report shall cover the action as a whole, regardless of which part of it is financed by the Contracting Authority" (Article 2.1).

It is essential to comply with this rule, as the MPFgrant is calculated as a percentage share of the total eligible costs of the project.

6) Financial reports must follow the provided template.

Financial reports must be drawn up in the template set out in Annex VI to the Contract.

FOCUS: ADDITIONAL REQUIREMENTS FOR THE FINAL REPORT – ARTICLE 2.2. OF THE GENERAL CONDITIONS

What does it say?

“Additionally the final report shall:

a) cover any period not covered by the previous reports;
b) include the proofs of the transfers of ownership as referred to in Article 7.5.”

FOCUS: IMPLEMENTATION PERIOD – ARTICLE 14.1(A) OF THE GENERAL CONDITIONS

What does it say?

“Eligible costs are actual costs incurred by the Beneficiary(ies) which meet all the following criteria:

a) *they are incurred during the implementation of the Action as specified in Article 2 of the Special Conditions. In particular:*

   i. *Costs relating to services and works shall relate to activities performed during the implementation period. Costs relating to supplies shall relate to delivery and installation of items during the implementation period. Signature of a contract, placing of an order, or entering into any commitment for expenditure within the implementation period for future delivery of services, works or supplies after expiry of the implementation period do not meet this requirement;*

   ii. *Costs incurred should be paid before the submission of the final reports. They may be paid afterwards, provided they are listed in the final report together with the estimated date of payment;*

   iii. *An exception is made for costs relating to final reports, including expenditure verification, audit and final evaluation of the Action, which may be incurred after the implementation period of the Action;*

   iv. *Procedures to award contracts, as referred to in Article 10, may have been initiated and contracts may be concluded by the Beneficiary(ies) before the start of the implementation period of the Action, provided the provisions of Annex IV have been respected.”*

FOCUS: TRANSFER OF ASSETS – ARTICLE 7.5 OF THE GENERAL CONDITIONS

What does it say?

Article 7.5: “Where the Beneficiary (ies) does not have its headquarters in the country where the Action is implemented and unless otherwise specified in the Special Conditions, the equipment, vehicles and supplies paid for by the Budget for the Action shall be transferred to a local Beneficiary (ies) and affiliated entity and/or the final beneficiaries of the Action, at the latest when submitting the final report. Copies of the proofs of transfer of any equipment and vehicles for which the purchase cost was more than EUR 5,000.00 per item shall be attached to the final report. Such proofs shall be kept by the Beneficiary (ies) for control in all other cases.”

CASE STUDY

An organisation with its HQ in Spain was the Coordinator of a project implemented in Morocco. There were several local Co-Beneficiaries. A car was purchased for EUR 5,500, specifically for the purposes of the Action but no documentation was retained about the purchase, or to specify where the asset is now.

POTENTIAL IMPACT: Without these documents, the cost of EUR 5,500 could be disallowed even if the procurement and document rules have been followed.

HOW TO AVOID THIS: The following actions should be taken to document the transfer at the end of the project. At the end of the project, the car should be transferred to a local Beneficiary. A proof of transfer, signed by both parties, should be attached to the final report. Both parties should keep a copy.

7. PREPARING FOR AN EXPENDITURE VERIFICATION

KEY MESSAGE: It is easier to prepare for expenditure verification as you run the project by keeping receipts and records than after the project has finished

What is an expenditure verification?

An expenditure verification is an external review by an auditor of the project reporting delivered.

Expenditure verifications may be performed by:

- Contracting Authority
- European Anti-Fraud Office
- European Court of Auditors
- An external auditor authorised by the Contracting Authority

The main basis of the expenditure verification will be the Financial Report as delivered to the Contracting Authority. The expenditure verification aims to inform the Contracting Authority of any expenditure claimed within the Financial Report which is not eligible in line with the terms agreed upon in the Grant Contract. This provides an independent assessment over the proper and appropriate use of funding received by the Contracting Authority.

Timeline and documentation for an expenditure verification

1) The Contracting Authority will assign the expenditure verification to a determined auditor, except if otherwise indicated in the Special conditions of the Grant Contract.

2) About two (2) weeks before the end of the reporting period, the auditor will contact the Coordinator and request initial documentation required in order to plan for the expenditure verification. This will most likely include:

- The Grant Contract, including all annexes, and any amendments (and budget reshuffle approvals) highlighting if any were entered into force after the end of the concerned reporting period;
- The Financial Report to be submitted to the Contracting Authority;
- The Narrative Report to be submitted to the Contracting Authority;
- The completion of a pre-audit questionnaire which will include questions regarding details of the Beneficiary, the project and the internal controls in place;
- A 'List of Incidentals', which is a listing of all expenses incurred which reconciles back to the total project expenditure as reported in the Financial Report. This Listing should be extracted from the Beneficiary's accounting system and be in Excel format, allowing the easy manipulation and selection of data by the auditor (i.e. the use of filters). The Listing should show each item of project expenditure on a line-by-line basis and individual expenditure items should have a unique identifier (e.g. a transaction reference, voucher reference). The minimum headings which should be included within a List of Incidentals are:
    - Transaction reference / voucher reference
    - Date of transaction
    - Budget line account number and heading to which transaction was posted
    - Transaction description
    - Transaction amount (in local currency)
    - Exchange rate applied (if applicable)
    - Transaction amount (in reporting currency, i.e. EUR)

KEY MESSAGE: The total expenditure per the List of Incidentals should correspond to the direct eligible costs claimed in the financial report.

Transaction Reference	Date	Budget Line No.	Budget Line Heading	Description	Amount (local currency)	Exchange rate applied	Amount (reporting currency: EUR)

An example of the headings required for a List of Incidentals is shown on the following page:

3) The auditor will select a sample of expenditure items in order to test and request that supporting documentation is provided for those items and made available on the first day of the audit.

For documentation required, see table below. Please note that the above list is not exhaustive and therefore additional information and documentation may be required depending on the specific expenditure claimed.

4) The auditor conducts their audit fieldwork, ordinarily at the Coordinator's office, where they verify the supporting documentation provided in order to substantiate the eligibility of the expenditure selected from the Financial Report. Please refer to the table below for clarification over which supporting documentation would be required. If the Co-Beneficiary's original documents cannot be sent to the Coordinator, a visit to the Co-Beneficiary may be required.

NOTE: due to the ongoing COVID-19 pandemic, expenditure verifications <u>may</u> be performed remotely, with documents scanned and sent to the auditor electronically. The decision will be made by the auditor on the basis of a risk assessment.

5) The auditor will hold a closing meeting at the end of the audit fieldwork with the key members of the Beneficiary's project team in which they will communicate any issues they have encountered during audit fieldwork.

6) The auditor will write a report on the expenditure verification performed which includes any factual findings, errors or exceptions noted during fieldwork. The draft report is provided to the Coordinator, who is given the possibility to clarify or add missing supporting documents (usually within 3 weeks). 7) The auditor finalises the report after receiving the Coordinator's comments.

ICMPD will not participate in the expenditure verification process, but will be informed in a timely manner of any critical issues.

KEY MESSAGE: Expenditure should be directly related and traced to the project and be supported by robust evidence (receipts, certificates, bids, payroll records)

Article 16.3 – General Conditions: "The Beneficiary(ies) shall allow verifications to be carried out by the Contracting Authority, the European Anti-Fraud Office, the European Court of Auditors and any external auditor authorised by the Contracting Authority. The Beneficiary(ies) has to take all steps necessary to facilitate their work.

Article 14.1. – General Conditions: Expenditure should be; "identifiable and verifiable, in particular being recorded in the accounting records of the Beneficiary(ies).

Article 16.9 – General Conditions: Documents to be provided include:

"a) Accounting records (computerised or manual) from the Beneficiary(ies)'s accounting system such as general ledger, sub-ledgers and payroll accounts, fixed assets registers and other relevant accounting information;

b) Proof of procurement procedures such as tendering documents, bids from tenderers and evaluation reports;

c) Proof of commitments such as contracts and order forms;

d) Proof of delivery of services such as approved reports, time sheets, transport tickets, proof of attending seminars, conferences and training courses (including relevant documentation and material obtained, certificates) etc.;

e) Proof of receipt of goods such as delivery slips from suppliers;

f) Proof of completion of works, such as acceptance certificates;

g) Proof of purchase such as invoices and receipts;

h) Proof of payment such as bank statements, debit notices, proof of settlement by the contractor;

i) Proof that taxes and/or VAT that have been paid cannot actually be reclaimed;

j) For fuel and oil expenses, a summary list of the distance covered, the average consumption of the vehicles used, fuel costs and maintenance costs;

k) Staff and payroll records such as contracts, salary statements and time sheets. For local staff recruited on fixed-term contracts, details of remuneration paid, duly substantiated by the person in charge locally, broken down into gross salary, social security charges, insurance and net salary. For expatriate and/or European-based staff (if the Action is implemented in Europe) analyses and breakdowns of expenditure per month of actual work, assessed on the basis of unit prices per verifiable block of time worked and broken down into gross salary, social security charges, insurance and net salary."

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FOCUS: KEY SUPPORTING DOCUMENTATION FOR EXPENDITURE VERIFICATION SAMPLE

BUDGET HEADING	SUPPORTING DOCUMENTATION TO BE PROVIDED
Personnel costs	- payslips (signed and authorised) - timesheets (signed and authorised) - payroll calculations to show proportion of personnel time and costs allocated to the project - signed employee contracts and any amendments - justification of any increase to salary - proof of payment
Consultant fees	- evidence of procurement procedures undertaken (if above procurement threshold) - signed contract with consultant - invoice - proof of deliverables or proof of time spent on project (e.g. timesheet submitted) - proof of payment on bank statement or signed payment voucher
Travel and subsistence costs	- invoices or receipts, boarding passes & tickets - proof of payment on bank statement of signed payment vouchers - proof of connection of travel to the project e.g. meeting minutes, training attendance listing, mission report submitted - travel request forms with authorisation, if applicable - expense forms with authorisation, if applicable - calculation of subsistence allowance (per diems) to confirm rate applied
Equipment	- procurement file (depending on the procedure applied): request for quotations, call for tenders, quotations, evaluation,…) - purchase order supplier invoice - delivery notes – - proof of payment - evidence of procurement procedures undertaken (if above procurement threshold) - proof of existence of asset (physical verification in person or via photos or video call)
Rental costs	- rental contract and procedure applied for selection if new lease entered - invoices - proof of payment
Consumables and supplies	- procurement file (depending on the procedure applied): request for quotations, call for tenders, quotations, evaluation report,…) - purchase order - supplier invoice - delivery notes - proof of payment - evidence of procurement procedures undertaken (if above procurement threshold) -
Subcontracting	- subcontractor contract - proof of payment - proof of deliverables achieved - evidence of procurement procedures undertaken (if above procurement threshold)
Sub-granting / Financial Support to third parties	For all organisations to whom sub-grants have been made, we would need to see evidence of underlying actual costs, i.e. - evidence of sub-granting procedures undertaken (Guidelines for the Call, applications received, evaluation reports etc.) - evidence for activities within sub-grants having taken place (reports etc.) - proofs of payment

RISK	HOW TO AVOID OR REDUCE THIS RISK
The total expenditure per the List of Incidentals provided does not match with total expenditure claimed in the Financial Report This may result in a factual finding raised	➢ Review the List of Incidentals extracted before providing this to the auditor to ensure that the total per this listing agrees to the total expenditure per the Financial Report
List of Incidentals not provided in a format which allows sample selection This may cause delays to the audit	➢ Ensure that a List of Incidentals is able to be provided in excel and that this contains sufficient information to permit sample selection
Supporting documentation not prepared in advance of the audit This may cause delays to the audit or possible factual findings raised in relation to missing documentation	➢ Ensure that all supporting documentation is prepared for the auditor's review in advance of their visit ➢ Impose strong record-keeping practices to ensure that documentation is maintained to support all expenditure claimed (see Section 1.1)
Supporting documentation is not clearly identifiable A factual finding may be raised if the auditor is unable to locate the supporting documentation required	➢ Impose strong record-keeping practices to ensure that documentation maintained is clearly verifiable to support all expenditure claimed (see Section 1.1) ➢ Supporting documentation should be provided with appropriate references to be able to trace back to the item of expenditure taken from the List of Incidentals
A clear audit trail between the amount claimed in the Financial Report and the amount per underlying supporting documentation does not exist A factual finding may be raised if the auditor is unable reconcile the amount claimed to supporting documentation	➢ Ensure that the auditor is provided with all information required in order to be able to trace the amount claimed per the Financial Report back to its supporting documentation ➢ If required, provide calculations in order to demonstrate this link e.g. if personnel costs have been split between projects, provide calculations and justification for the proportion of the cost charged to the project
The connection to the project of expenditure claimed is not clear from supporting documentation provided For example, the reason for travel and its corresponding costs is not evident from support provided, this may led to a factual finding being raised	➢ Ensure that the connection to the project of expenditure items is evident from support provided to the auditor ➢ For travel costs, this can be demonstrated through meeting minutes, training agendas and participants lists, mission or activity reports or similar evidence for the reason for travel

8. GLOSSARY

PRINCIPLES OF FINANCIAL MANAGEMENT OF A GRANT	**Coordinator** – ensures the Action is implemented in accordance with the Grant Contract and is responsible for coordination with all co-Beneficiary(ies). The Coordinator is also responsible for supplying all narrative and financial reporting to the Contracting Authority, including consolidated input from the Co-Beneficiaries, and for liaising with the auditors. **Co-Beneficiary(ies)** – contribute to the implementation of the action. Receive funds from the Coordinator to implement project activities. Submit financial reports to the Coordinator. Do not have direct contact with the Contracting Authority or auditors. **Beneficiary(ies)** - refers collectively to all Beneficiaries, including the Coordinator of the Action and the Co-Beneficiaries. **Double entry bookkeeping -** is an accounting system where every transaction is recorded in two accounts: a debit to one account and a credit to another. Accrual accounting – transactions are recorded on the date when they occur rather than on payment/receipt. **Internal control** - a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. **Bank reconciliation** - the process of comparing the entries and ending cash balance in the bank/cashbook with the bank statement for the same period, for the purpose of spotting any differences. It provides an important check on the completeness and accuracy of the cashbook entries. **Total cost of the Action** – refers to the entire action budget, including all the different co-financing sources. **Bank book -** an accounting register which records all transactions passing through a bank account. Also known as a cashbook. Can be in physical book format or in computerised form. **Bank reconciliation -** process of comparing the entries and ending cash balance in the bank/cashbook with the bank statement for the same period, for the purpose of spotting any differences. It provides an important check on the completeness and accuracy of the cashbook entries. **Petty cash book -** the day-to-day listing of petty cash (i.e. small cash amounts) transactions. **Cash reconciliation** - comparing the physical cash count to the expected balance in the petty cash book on a particular date. **Cashflow -** difference between cash received and cash spent in a period. **Imprest** - type of cash float, set at an agreed level, which is topped up by the exact amount spent since it was last reimbursed to bring it back to its original level.
STAFF COSTS	**Gross salary -** total amount of pay before any deductions are taken Net salary – pay an employee received after deductions. **Social security -** taxes or contributions based on gross salary amount made by the employee, employer or a combination. Exact rules will depend on the country in question. **Fixed term contract -** employment contract which has a predefined end date.

PROCUREMENT	**Tender** - the process of issuing a request for suppliers to bid to supply goods or services required for the project. **Conflict of interest** - a situation in which an objective procurement decision cannot be made on account of personal interests competing with professional responsibilities. **Negotiated procedure** - in certain (rare) circumstances, a Beneficiary may award a contract using a negotiated procedure without prior publication. The Beneficiary would approach one or more suppliers seeking to negotiate the terms of the contract without any advertising.
TRAVEL COSTS	**Mission** - travel away from a person's ordinary place of work for the purpose of project related activities. **Per diem** - daily subsistence allowance which can be claimed to cover the accommodation, meals, local travel and sundry expenses incurred by project staff during a mission.
OTHER	**Administrative costs** - (also called Indirect costs / Overheads / General operating costs) are costs incurred in the implementation of a project but not directly linked to project activities. Examples include; utility costs, office insurance costs, office rental costs, office supplies. **Contributions in kind** - contribution of a good or a service other than money **Market value** - the price which would be paid for a good or service ordinarily i.e. if this was not donated. **Sub-granting** - the award of a grant to a third party, i.e. re-granting a portion of the project budget.
REPORTING	**Payment request** - when the Coordinator submits a request for financing to the Contracting Authority. **Financial report** - provides a summary of the actual project expenditure incurred against budget. **Narrative report** - provides a written summary of how the project achieved its proposed objectives. **List of Incidentals / Breakdown of Expenditure** - line by line breakdown of expenditure items claimed within the Financial Report (which can be drafted using ICMPD template or the Coordinator's own template).