REDUCING DISPARITIES | STRENGTHENING COOPERATION

FMO March 2014

Guidance document on reporting and the verification of payment claims with respect to donor project partnerships

Background

Several questions have been raised by Programme Operators (PO), Donor Programme Partners (DPP) as well as by existing- and potential Donor Project Partners (dpp) on how to relate to a POs procedures on the verification of payment claims with respect to the specific provisions provided for on the submission of proof of expenditure for dpp's.

This guidance document aims at answering the most frequently asked questions concerning this by providing clarification on how, in general, expenditures are claimed by Project Promoters (PP) and dpp's, and in particular on how the provisions in articles 7.13.1 and 7.13.3 of the Regulations on the implementation of the EEA Grants- and Norwegian Financial Mechanism, relate to this.

Verification of Payment Claims and Proof of Expenditure

It is important at the outset to understand the difference between 'claiming expenditure' and 'proving expenditure'. Claiming expenditure, by way of a payment claim (the terminology varies), relates to the processes surrounding the financial flows from the Programme to the project and in the case of donor partnership projects, from the PP to the dpp. Proving expenditure describes the requirements for justifying/verifying the expenditure that has been incurred by the parties involved in the project. The Regulation does not require that these two processes are linked.

Whether or not payments are made to PPs and/or dpp's in the form of advance payments or in the form of reimbursement of incurred expenditure, and however the PO requests that expenditure is reported on and at what frequency, the common rule is that any cost that is incurred by a PP or a dpp needs to be supported by a receipted invoice or a similar accounting document (Article 7.13.1).

However, this does not mean that the PO is obliged by the Regulation to set up a system which involves that all these accounting documents (the proof of expenditure) are required to be submitted each time a payment claim is submitted by a PP or a dpp. Equally, the Regulation does not require that 100% of proof of expenditure is submitted to the PO. The Regulation requires the POs to set up systems and control mechanisms which ensure a *sufficient level of control* over the expenditure that is incurred by PPs and dpp's. However, with this requirement there is a reasonable amount of flexibility as long as certain fundamental aspects are fulfilled.

Although the setup varies between Programmes and Beneficiary States, the Regulation provides for an approach where it should be considered sufficient that the dpp can make available the original accounting documents (the proof of expenditure) upon request when required to do so, e.g. in case of a monitoring visit or an audit.

A dpp can choose to submit a report by an independent and certified auditor according to article 7.13.3 at any instance where they are requested to provide "proof of expenditure", and the PO is required to accept it as such. Alternatively, a dpp may opt to follow the procedures established by the PO for providing "proof of expenditure" that apply to all other entities involved in the FMs that are not entitled to choose the report according to article 7.13.3.

The report according to article 7.13.3

The report on claimed expenditure according to article 7.13.3 of the Regulation, which a donor project partner is entitled to submit instead of proof of expenditure, shall be issued by an independent and certified auditor and fulfil the following criteria.

In the report the auditor shall state certify that:

- Claimed costs within the project are incurred in accordance with the Regulation on the implementation of the EEA Grants- and Norwegian Financial Mechanism 09-14.
- Claimed costs within the project are incurred in accordance with the national law and accounting practices of the donor project partners country

The costs incurred by a dpp associated with contracting of an independent and certified auditor for the purposes of issuing the report are eligible project costs under the Regulation.

Use of a competent public officer in state institutions and agencies for the issuing of the report

In addition to the above there may be a possibility for donor project partners which are state institutions or agencies to have a competent public officer to prepare the audit report required under 7.13.3.[1] The use of this provision will be subject to the following conditions:

- Relevant national authorities in the donor project partners country have established the legal capacity of the competent public officer to audit the dpp entity and that the independence of the officer in particular regarding the preparation of the financial statements, can be ensured.
- The competent public officer can provide a report certifying that the claimed costs are incurred in accordance with this Regulation (The EEA/Norwegian Financial Mechanism Regulation), the national law and accounting practices of the donor project partner's country.

Competent public officers employed in independent departments within state institutions/agencies and who regularly audit these entities, may qualify as sufficiently independent. This would only be

[1] The formalisation of these additions to the Regulation will follow.

the case where the relevant national authorities have established the legal capacity of a public officer to audit that entity.

Practically this means, in order to establish that the public officer complies with the above conditions, that POs should receive assurances from the dpp's from relevant national authorities in the donor states that they comply with these criteria.

Frequency of reporting, payment claims and submitting audit reports

As mentioned above, according to the setup of the Programme, the frequency at which POs require financial reports and payment claims to be submitted can vary. However, the frequency at which a dpp would need to submit an auditor's report according to article 7.13.3, should the dpp have chosen to utilise this option, is determined by the PO's requirements on submitting proof of expenditure. Normally this should not be required in relation to verification of each payment claim by the PO, but could for instance only be in connection with audits or sample checks, where the PO requires that the accounting documents are made available for review. In any case, taking into account the expense and complexity involved in preparing the auditor's report, it is not considered proportionate to require this more than once per year.

Open communication between dpp's, PPs and POs

The FMO has in line with the Regulation sought to ensure that the operational rules of the programmes under the FMs should not require a disproportionate amount of administrative burden and that submission of supporting documentation in the form of original invoices or copies should be kept to a minimum.

In order to limit the amount of expenses and administration with respect to submission of payment claims the FMO encourages Project Partners and dpp's to seek information on the reporting requirements in the Programmes where they are partners and clarify what type of information and supporting documents are required to be submitted in connection with the claims, and what arrangements can be made with respect to the submission of proof of expenditure.