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**The methodology for checking expenditure documents of the Estonia-Latvia Programme in the programming period 2014–2020 by the Estonian financial control bodies**

This document provides guidance to the Estonian financial control bodies on how to verify the declared expenditures by the project partners on a random sample basis and which principles shall be followed during on-the-spot verifications.

**Basic principles of the methodology**

Pursuant to Article 125(5) of Regulation (EU) No 1303/2013 of the European Parliament and of the Council, the verifications comprise two key elements namely, administrative verifications (i.e. desk-based verifications) in respect of each partner report and on-the-spot verifications of operations.

In order to accelerate the management verification of the partner reports and focus on risks there is an option to use simple random sampling. Sample items are selected so that the sample can be expected to be representative of the population. Therefore, all items in the population have an equal chance of being selected. In this case simple random sampling is applied as a sample selection method. Sampling unit is an invoice, a cost report etc.

1. **Desk-based verification**
   1. **100% verification is done for:**

* All cost Descriptions in the List of Expenditures;
* First partner report[[1]](#footnote-1);
* Public procurements;
* High value items with the value from 5000 euros[[2]](#footnote-2) (excluding VAT). A cost line can be omitted from the sample in case of similar cost line of the related contract has been previously verified or is planned to verify within the same payment;
* The personnel costs of a newly recruited person.
  1. **Random sampling[[3]](#footnote-3)**

Random sampling of 10 % of expenditures not verified according to point 1.1.

* At least once during the project duration, every Budget Line must be included in the sample.
* If the report includes cost lines, where previously have been shortcomings (ineligible costs, irregularities etc.), they may be further included in the sample.

In case **ineligible cost** (except for calculation mistakes, missing documents etc.) in the verified expenditures is found:

* up to 2%, the sample will not be extended;
* in the amount of 2,01 % – 9,99 %, the sample will be extended to 50 % of costs based on the content of the error or in the specific BL[[4]](#footnote-4);
* in the amount of 10% or more, the sample will be extended to 100 % of costs based on the content of the error or in the specific BL.

For the purpose of an adequate audit trail, the financial controller must compile and document a precise description of how the sample was taken when using the sample-based methodology for checking the eligibility of the costs declared in the partner report. This description should indicate to the details of the methodology followed by the financial controller and also refer to the main results and the type of errors detected during desk-based verification.

In the Technical Assistance reports only items with the value from 5000 euros (excluding VAT) that have not been previously controlled in the frames of other procedures in State Shared Service Centre are verified by the financial controller.

1. **On-the-spot verifications**

On-the-spot verifications are carried out complementary to the desk-based check in order to verify in particular the reality of the operation, delivery of the product/service. On-the-spot verifications can also be conducted to check whether the project partner is providing accurate information regarding the physical and financial implementation of the operation.

If either equipment will be purchased or investments made by a project partner during the implementation of project activities, on-the-spot verifications of the respective project partner must be conducted at least once during the lifetime of the project before the final payment to the respective project partner is made.

In the event of risks or shortcomings (i.e. problems with reporting, eligibility, procurements) are found by the financial controller during the desk-based check of partner reports, it may lead to on-the-spot verifications, even if it was not initially planned.

1. Full report with real costs [↑](#footnote-ref-1)
2. With the exception of Staff cost that is presented as one sum for the reported period – in that case Staff cost will be verified according to point 1.2. [↑](#footnote-ref-2)
3. Sample is made using Excel [↑](#footnote-ref-3)
4. The sample should be extended to costs where there is a risk of same error(s). [↑](#footnote-ref-4)