



Eurasia Partnership Foundation

**Contracting authority: “Service for Foreign Policy
Instruments (FPI)”**

Expenditure verification Report

of a Grant Contract “Peacebuilding through Capacity Enhancement and Civic
Engagement (PeaCE) – Component 1”,
Contract No. ICSP/2016/376-633
FPI.EPC.2021.08

for the period from 29 December 2016 till 28 December 2019

DRAFT

1. Background information

1.1. Short description of the action subject to verification

Contract number and title:	376-633, “Peacebuilding through Capacity Enhancement and Civic Engagement (PeaCE) – Component 1”
Contract type	Grant Contract
Financial Report(s) subject to verification	29/12/2016 – 28/12/2019
Expenditure verification Contracting Authority	European Union Committee, Service for Foreign Policy Instruments (FPI)
Reporting Entity and Other Spending Entities¹	Eurasia Partnership Foundation (“the Organization” or “the Beneficiary”)
Location(s) where the Contract is implemented	Armenia
Contract implementation period	29/12/2016 – 28/12/2019
Contract implementation status	Completed
General and specific objectives of the Contract	<p>Overall objective: to rehabilitate the peacebuilding process between the two societies, re-engage Armenians and Azerbaijanis from Armenia, Azerbaijan and Nagorny Karabakh (NK) in peacebuilding activities, and nurture an educated generation of Armenian and Azerbaijani peacebuilders thus contributing to the transformation of the NK conflict, in cooperation with the EPNK Consortium.</p> <p>Specific objectives:</p> <ul style="list-style-type: none"> • to encourage civil society actors as well as grassroots in Armenia, Azerbaijan and NK to contribute to bridging the conflict divide via implementing innovative in-country, bilateral or multi-lateral sub-grant projects; • to encourage young Armenians and Azerbaijanis from Armenia, Azerbaijan and NK to develop a shared vision for peace in the region through learning the conflict transformation and peacebuilding methodologies.
Synthetic description of the activities, outputs and target group	<p>To achieve objectives the project will aim to accomplish the following outcomes:</p> <p>Outcome 1: civil society actors re-engage in confidence-building and rehabilitation of the dialog between Armenians and Azerbaijanis through peacebuilding initiatives and enhanced organizational capacity.</p> <p>Outcome 2: A new cadre of young peacebuilders from Armenia, Azerbaijan and NK enabled through hands-on learning and practical collaboration, engages in and innovatively contributes to the transformation of the Armenian-Azerbaijani conflict.</p> <p>The above two Expected outcomes will be achieved through the implementation of a set of well-designed activities: Regional Coordination Meetings, Sub-grants Scheme, CSO Management School, and Conflict Transformation School, as well as a series of in-country and regional meetings with stakeholders, and an International Conference.</p>

¹ The term "Other spending entities" identifies the entities, beyond the reporting one, which incurred part of the reported expenditure

1.2. Basic financial information of the Contract (at the time of the verification)

1.2.1 Expenditure

Budget Headings	Budgeted Expenditure (amount)	Reported Expenditure (amount)
Human Resources	197,690	200,700
Travel	11,400	14,185
Equipment and supplies	2,000	2,183
Local office	36,000	38,061
Other costs, services	102,599	98,892
Other	280,000	274,927
Indirect costs	44,078	44,027
Total	673,767	672,975

1.2.2 Contributions

<u>Source of Contribution</u>	<u>Budgeted Contribution (amount)</u>	<u>Actual Contribution (amount)</u>
EU	640,079	638,939
Other sources	33,688	34,036
<u>Total</u>	673,767	672,975

1.2.3 Revenues

The Organization does not generate revenue.

1.3. Verified Financial Reports/Invoices

See annex 3.1

2. Risk analysis

2.1. Outcome of risk analysis

We have not identified any critical risk factors or weaknesses in internal controls. Below is our recommendation for bringing the existing accounting practices more in line with the best practices for the NGOs.

Accounting for indirect costs

Background

According to the Article #14.7 of Annex II of the Grant Contract, 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. However, they are incurred by the Beneficiary in connection with the eligible direct costs for the action. They may not include ineligible costs or costs already declared under another cost item or heading of the Budget of the Contract.

A fixed percentage of the total amount of direct eligible costs of the Action not exceeding of 7% may be claimed to cover indirect costs for the Action. Flat-rate funding of indirect costs does not need to be supported by accounting documents.

The Organization charged 44,026 EUR of indirect costs that explicitly equal to 7% of already incurred costs.

Limitation on the scope

The Organization does not maintain a detailed accounting for indirect costs. We obtained from the Organization only general description of such costs without detailed breakdown, therefore we are not able to conclude whether indirect costs were incurred by the Beneficiary in connection with the eligible direct costs for the action.

Risks and recommendations

The Organization needs to develop a clear rule for allocating the costs to the indirect costs. It is important to ensure the consistency and transparency of such costs accumulation as well as to ensure the traceability for the external verification purposes.

In absence of other information that would confirm or indicate the contrary, we could not conclude on the eligibility of these costs. We submit this finding to EUD for consideration and decision.

Organization's comments

Sub-grants scheme

Background

The Organization searches for proposals from different organizations and individuals for activities that can significantly contribute to the specific objectives of the action and multiply the outcomes. The procedures on involving of sub-grantees is based on the Action IcSP 2016 376-633. Final decision on a particular proposal is done during the Selection Committee meeting which is performed online and documented in the notes circulated among participants by email.

The total eligible costs of sub-grantees are stipulated in the agreements. Pursuant to the agreement the sub-grantee must report on its financial expenditures. The Organization maintains detailed listing of operations with sub-grantees based on payments (tranches) made. However, a detailed register of operations made by sub-grantees was not maintained in several cases. Despite availability of primary documents absence of detailed register of operations complicates a reconciliation process.

Risks

There is a risk that accounting records on the sub-grantees scheme may be incomplete or inaccurate due to absence of detailed breakdowns and lack of automated reconciliation.

Recommendation

We recommend the Organization to improve accounting of transactions with sub-grantees to ensure clear trail from cash transferred to expenditure incurred by sub-grantees. A detailed list of expenditures of sub-grantees needs to be maintained to simplify reconciliation process both for the Organization and external verification purposes.

Organization's comments

2.2 Implications on the sampling

We did not identify critical risk factors, our sample was selected on a judgmental basis. Value was one of the principle factors for determining the sample size. We selected high-value expenditures of different nature to ensure an appropriate coverage of expenditures. In addition, we specifically selected transactions relating to sub-grants scheme since this is the most material line in the financial report.

3. Transaction population and sample

3.1 Sampling Highlights/Overview

The sample size was determined based on a materiality threshold of 2% of the total amount of reported expenditure with a confidence level of 95% and considering the risk analysis presented above.

We used non-statistical method for determining the sample size. We selected high-value expenditures of different nature to ensure an appropriate coverage of expenditures.

Results of final report for the period: 29/12/2016 – 28/12/2019		
	Population	Verified sample
Number of transactions	2,597	692
Value of transactions EUR	628,948	307,809

A complete list of the transactions included in the population is to be included in Annex 3.2.

4. Substantive testing

4.1. Short description of the testing process

We confirm that the testing procedures established in the annex 2 to the Terms of Reference were applied with the following scope limitation:

- We are not able to conclude whether indirect costs were incurred by the Beneficiary in connection with the eligible direct costs for the action (please refer to paragraph 2.1.).

We confirm that the testing was executed in accordance with the International Standard on Related Services (ISRS) 4400, “Engagements to Perform Agreed-upon Procedures Regarding Financial Information”.

Key information about the testing process.

4.1.1 The expenditure is recorded in the accounting system of the Reporting Entity or of the Other Spending Entities.

We reconciled the Selected Expenditures to the accounting records of the Beneficiary. We also checked that expenses included in the financial report incurred in the accounting records of the Beneficiary.

4.1.2 Expenditure incurred during the contractual eligibility period

We reviewed supporting documents of the Selected Expenditures in order to check whether they were incurred during the implementation period of the Action (29 December 2016 to 28 December 2019), by examining dates of invoices, dates of contracts and proof of payments, where payment was considered as a proof for rendered services.

4.1.3 Expenditure indicated in the contractual estimated budget

We obtained the Action budget and verified that the Selected Expenditures were indicated in the Action budget by tracing Selected Expenditures to the Action budget.

We also reconciled the lines of the Financial Report to the Action budget in order to verify that description and amount of expenditures are equal.

4.1.4 Expenditure necessary for the implementation of the contractual activities, reasonable and justified

We verified whether it is plausible that Expenditure for a selected item was necessary for the implementation of the Action and that it had to be incurred for the contracted activities of the Action by examining the nature of the expenditure with supporting documents.

4.1.5 Expenditure identifiable and verifiable

We reconciled Selected Expenditures to the accounting records of the Beneficiary;

We checked that supporting documents were available in electronic form.

4.1.6 Expenditure complies with the requirements of applicable tax and social legislation

For the Selected Expenditures we verified that expenditure complies with requirements of tax and social security legislation where its applicable.

4.1.7 Financial support to third parties (sub-granting)

We verified that expenditure incurred by the third parties meets the relevant eligibility requirements.

4.1.8 Other eligibility requirements

For the Selected Expenditures we verified that:

- The correct exchange rates are used;
- The indirect costs do not exceed the maximum contractual percentage of the eligible direct costs;
- Contributions in kind are not included in the financial report, unless otherwise provided for in the contractual conditions.

5. Summary of findings

5.1. Summary of findings detected

None.

5.2. Classification of findings by compliance issue

No	Compliance issue / reason for ineligible expenditure	No of findings	Amount €
1	Missing / inadequate documentation	-	-
2	Incorrect procurement procedure applied	-	-
3	Expenditure outside contractual period	-	-
4	Expenditure includes VAT / other taxes	-	-
5	Incorrect exchange rate used	-	-
6	Budget exceeded	-	-
7	Expenditure not for project purposes	-	-
8	Fraud and irregularities	-	-
9	Income not declared / not reported	-	-
10	Other financial findings	-	-
	Total financial findings	-	-

5.3 Audit team

Yevgeniya Kopystyanska, Local Audit Partner
Olexiy Shramko, Audit Manager

Annex 3.1: Financial report provided by the reporting entity

Annex 3.2: Table of transactions - provided as Excel file