Verifications of EU Funded Projects

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REPUBLIC OF CYPRUS EUROPEAN UNION

Overview [1/2]

- Financial Flows within the MCS in Cyprus
- Levels of controls
- Areas of control – risk areas / verification objectives
- Methodology and procedures for verifications
- Stages of verification:
  - Preliminary – Community / State Aid
  - Contracts
  - Payments
  - On-the-spot verifications
  - Control for Double Financing

Overview [2/2]

- Special tools used in verifications of public procurement projects
  - Verification of works variations
- Irregularities
- Stages of Application of Financial Corrections:
  1. Before verifying expenditure on payment claims – ex-ante controls function correctly
  2. After verifying expenditure on payment claims – ex-post identification of irregularity

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Verifications

Ensure that the expenditure declared is **real**, that the products or services have been **delivered** in accordance with the approval decision, that the applications for reimbursement by the beneficiary are **correct** and that the operations and expenditure **comply** with Community and national rules. They shall include procedures to **avoid double-financing** of expenditure with other Community or national schemes and with other programming periods.

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AIDS GRANTED BY STATES
Article 87

- 1. … any aid granted by a Member State or through State
- resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the common market.
- 2. The following shall be compatible with the common market:
- (a) aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the products concerned;
- (b) aid to make good the damage caused by natural disasters or exceptional occurrences;
- (c) aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, in so far as such aid is required in order to compensate for the economic
- disadvantages caused by that division.

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Financial Flows [1/3]

- Projects financed on the first instance from National Budget before eligible expenditure submitted for co-financing
  - Beneficiaries <u>receive</u> Public Contribution <u>before</u> Application for Payment sent to the EU

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Financial Flows [2/3]

Flow of Payments to EU Certification

Secure budget for project implementation and make payments to project contractors
(e.g. Private Entity Budget)

Beneficiary – body implementing project

BENEFICIARY FUNDS

Register expense in own accounting system and submit payment claim to the Intermediate Body / controller

IB – body implementing scheme

Receive grant payments from IB (Aid Scheme Promoter – Central Government Department or Semi-Government Organisation) – based on aid scheme financing letter terms

CENTRAL GOVERNMENT FUNDS

IB

Register payments to Beneficiaries on the MIS and submit quarterly Certifications of Expenditure to the Managing Authority

MA - CA

USE OF EU FUNDS

Managing Authority certifies expenditure to the Certifying Authority and CA Submits Application for Payment to the EU

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Financial Flows [3/3]

Flow of Payments to EU Certification – European Territorial Cooperation Programmes

Local Partners Secure budget for project implementation and make payments to project contractors

Local Partner – body implementing project

BENEFICIARY FUNDS

Local Partners register expenses in own accounting system and submit payment claim (following controller verification) to the Lead Partner

Lead Partner – body coordinating project

First Level Control

Lead Partner submits summary payment claim to Managing Authority for co-financing (following LP controller verification)

MA / CA

Managing Authority certifies expenditure to the Certifying Authority and CA Submits Application for Payment to the EU

CA

USE OF EU FUNDS

Lead Partner receives EU Co-financing from Certifying Authority and makes payments to Local Partners

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Levels of Controls

- ex-post: European Commission / Court of Auditors - **audits**
- ex-post: Audit Authority – **audits**
- ex-post: Certifying Authority – **overviews**
- ex-post: Managing Authority – **verifications**
- ex-ante: Intermediate Bodies / Controllers – **verifications**
- ex-ante or ex-post: Responsible Authorities – compliance with Horizontal Community Policies (**verifications**)

Designated Programme Auditors

First Level Control

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Regulatory and Administrative Framework

VERIFICATIONS

Administrative verifications	**On-the-spot verifications**
for every application for reimbursement (expenditure report) submitted by a beneficiary **100%**	of individual operations **sample basis**

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Verification Objectives [1/2]

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Verification Objectives [2/2]

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Methodology for Verifications

PRELIMINARY VERIFICATIONS (Before project approval):

- Community Policies
- Double Financing

VERIFICATIONS OF CONTRACTS:

- Quality verifications, eligibility, public procurement laws and procedures

EXPENDITURE VERIFICATIONS:

- Eligibility, correctness, regularity, auditable documentation

ON THE SPOT VERIFICATIONS – ADMINISTRATIVE & PHYSICAL:

- Delivery of co-financed products and services, information and publicity measures, audit trail, availability of documents, durability of operation

VERIFICATIONS AT CLOSURE:

- Assessment of previous verifications

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Verification Procedures

VERIFICATION OF COMPLIANCE WITH COMMUNITY POLICIES	• **RESPONSIBLE AUTHORITIES**
VERIFICATION OF CONTRACTS	• **INTERMEDIATE BODIES / CONTROLLERS** • BEFORE VALIDATING CONTRACTS
VERIFICATION OF EXPENDITURE	• **INTERMEDIATE BODIES / CONTROLLERS** • BEFORE VALIDATING BENEFICIARY EXPENDITURE REPORTS / APPLICATIONS FOR REIMBURSEMENT
ON-THE-SPOT VERIFICATIONS	• **INTERMEDIATE BODIES / CONTROLLERS** • ON THE SPOT (DELIVERY OF PRODUCTS) - *TECHNICAL*
VERIFICATION OF ADHERENCE TO MA PROCEDURES	• **INTERMEDIATE BODIES / CONTROLLERS** • ON THE SPOT AT BENEFICIARY PREMISES - *ADMINISTRATIVE*

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Community Policies Competent Authorities

Public Procurement

- **Public Procurement Department, Treasury of the Republic**

Environment

- **Department of Environment, Ministry of Agriculture, Natural Resources and Environment**

State Aid

- **Commissioner for State Aid and Control**

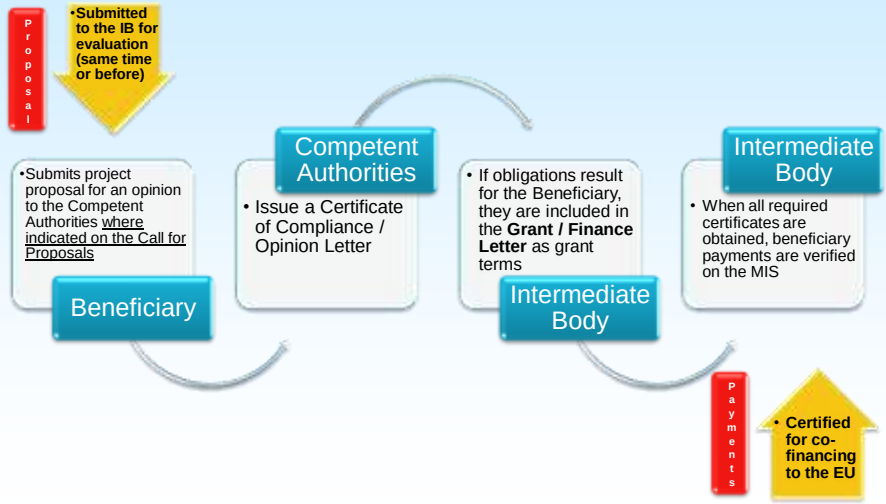
Equality between men and women

- **Ministry of Justice and Public Order**

Non-Discrimination

- **Ministry of Labour and Social Insurance**

Verification of Community Policies



Verification of Contracts
Public Procurement Procedure [1/7]

- **Stages of Compliance (legality):**

1. Before publication of tender notice and finalisation of tender documents
2. Before publication of addendums to tender documents
3. Before award of tender
4. Before initiation of a negotiation procedure

Independent quality control of designs (contracts > €3,5mil)

http://www.structuralfunds.org.cy/uploadfiles/εγκύκλιος%20%20Κοινοτικές%20Πολιτικές%20Ιούνιος%202011%20έκδοση%202.pdf

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Verification of Contracts
Public Procurement Procedure [2/7]

- Above certain thresholds:
  - All levels of certification apply
- Below certain thresholds:
  - Certification for tender notice and tender documents
  - No certificates required

According to the Cyprus Public Procurement Law, procedures below EU thresholds, are the same as procedures above the thresholds

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Verification of Contracts
Public Procurement Procedure [3/7]

Procedures where certificates are not required:

Beneficiary prepares self-assessment checklist

- Assuring compliance to the Public Procurement Laws and procedures

Submits to IB / Controller

Intermediate Body / Controller verifies contracts

- Verifies compliance of procedure during on-the-spot verification

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Verification of Contracts
Public Procurement Procedure [4/7]

Certificates with reservations:

Issued in cases where some irregularities are detected in the procurement procedure

IB / CONTROLLER applies COCOF/07/0037/00-EN *"Guidelines For Determining Financial Corrections To Be Made To Expenditure Co-Financed By The Structural Funds Or The Cohesion Fund For Non-Compliance With The Rules On Public Procurement"*

IB / CONTROLLER Reduces expenditure declared as eligible under the contract

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Verification of Contracts
Public Procurement Procedure [5/7]

A single Public Procurement Procedure

- Can be certified after conclusion of procurement procedure

Certificates for all contracts within a project

- can be issued either before the project approval for co-financing or during the project implementation cycle

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Verification of Contracts
Public Procurement Procedure [6/7]

- **Example:** Research Projects
- Implemented by Public Law Bodies - Beneficiaries
- IB – body granting the aid
- ***Irregularities detected at verification stage:***
  1. Beneficiaries considered research contracts could be excluded from the Procurement Directives
  2. Contract awarded without complying with the advertising requirements laid down in the EC Public Procurement Directives

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Verification of Contracts
Public Procurement Procedure [7/7]

- **Financial corrections applied by IB (<u>before</u> submission of expenditure for co-financing):**
  1. 100% of contract amount
  2. 25% of contract amount
- Expenditure declared as eligible:
  1. 0%
  2. 75% of contract amount

No irregular expenditure charged to the General Budget of the European Union

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Verification of payments
Performed during the verification of payment claims submitted by Beneficiaries

- Eligibility rules
- Correctness and regularity of expenditure
- Documents proving the real payment of expenditure
- Sufficient filing and audit trail of the documentation by Intermediate Body
- Stamping of Beneficiary and Supplier documents to avoid double financing
- Existence of separate accounting system or code [also verified on-the-spot]

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Verification of payments
Levels of Eligibility

Eligibility of Operational Programmes
– European Commission Approval

Eligibility of Operations / Projects
– Compliance to criteria set by the Monitoring Committee during project evaluation and approval

Eligibility of Major Projects
– approval by European Commission

Eligibility of Contracts
– compliance to public procurement rules and procedures

Eligibility of Expenditure
– compliance to eligibility rules issued by the Managing Authority and project grant/financing decision

Period of Eligibility: 1/1/2007 – 31/12/2015

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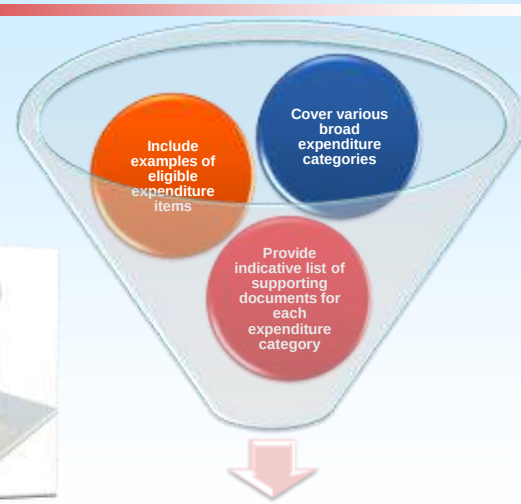
Verification of payments
Eligibility Rules



Eligibility of Expenditure

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Verification of payments
Real Payment of Expenditure

- Expenditure has actually been incurred by beneficiaries within the eligibility period for projects selected for co-financing according to selection criteria applicable for OP

- Expenditure amounts must be accurate and valid and sufficiently justified by invoices and/or by accounting documents having a probative value equivalent to invoices, proving the reality of their payment

- In addition, as regards aid schemes, the public contribution corresponding to the expenditure paid by the Beneficiary shall have been paid to the Beneficiary by the body granting the aid, before submission of expenditure to the EC for co-financing

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Verifications of payments
Audit Trail

- Aggregate amounts certified to the Commission reconciled with detailed accounting records and supporting documents held by the certifying authority, managing authority, intermediate bodies and beneficiaries as regards operations co-financed
- Verification of payment of the public contribution to the beneficiary
- Verification of application of the selection criteria established by the monitoring committee for the Operational Programme
- Contains, as appropriate, the technical specifications and financing plan, documents concerning the grant approval, documents relating to public procurement procedures, progress reports and reports on verifications and audits carried out

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Verifications of payments

Filing

Application for Funding → Evaluation according to relevant criteria → Approval Decision → Major Project Approval by European Commission → Community Policy Compliance Certificates → Public Procurement Procedure Documentation → Expenditure Documentation → Progress Reports → Documents proving compliance to publicity requirements → Expenditure Reconciliations

Supporting documents must be kept available for the Commission and the Court of Auditors for a period of three years following the closure of an Operational Programme

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Verification of Payments

Procedures to avoid double-financing of expenditure with other Community or national schemes and with other programming periods

- **Statement at proposal submission**

Beneficiary

IB – During Preliminary verifications - Aid Schemes

- **IB during proposal evaluations cross-checks with other Bodies implementing Aid Schemes**

- Checks whether Beneficiary has stamped all original supporting documents (e.g. invoices) with special stamp stating that the item has been co-financed from the Structural Funds

IB - During administrative verifications of payment claims

MIS automated controls

- Checks that no invoice reference number per Contractor is submitted more than once within the project payments supporting documents (ledger of beneficiary payments and supplier invoices created by MIS)

IB- during the on-the-spot visits at Beneficiary premises

- A sample of the original documents submitted for co-financing with payment claims checked (for existence of stamp)

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Verifications of payments

Accounting System

Other Beneficiaries

- similar / proportional arrangements in their own accounting systems

Beneficiaries in the Public Sector

– FIMAS – separate vote or T-analysis

Where necessary

– appropriate reconciliations made

Beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation

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On-the-spot verifications

Verification of implementation of the physical object

- Delivery of co-financed products and services based on contract deliverables and physical implementation progress against project fiche timetable
- Compliance with terms set in Project Finance Letter
- Compliance with terms set for Community Policy Compliance Certificate
- Information and publicity measures
- Audit trail / Availability of documents
- Durability of operation (five years after completion)

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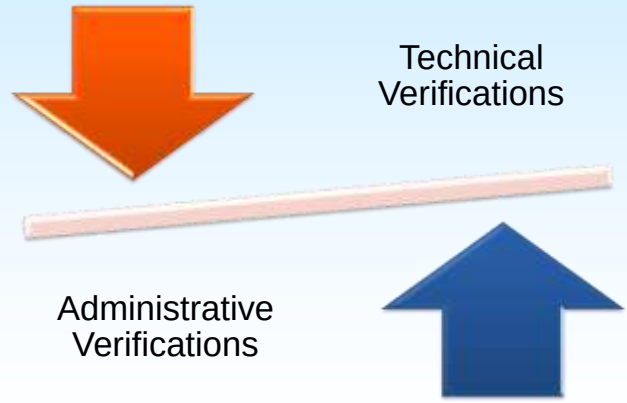
On-the-spot verifications



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On-the-spot verifications

Information and Publicity [1/4] – Responsibilities of beneficiaries - measures for the public

Information specified in regulation shall take up at least 25% of the billboard

Will be replaced by permanent plaque upon project completion

During the implementation put up a billboard at the site

+

visible and of significant size

state the type and name of the operation

information shall take up at least 25% of the plaque

No later than 6 months after completion, put up a permanent explanatory plaque

→

Operation >EUR 500.000 total public contribution

- purchase of a physical object or
- financing of infrastructure or
- construction operations

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On-the-spot verifications

Information and Publicity [2/4] – Responsibilities of beneficiaries - measures for the public

Any document, including any attendance or other certificate, concerning such an operation shall include a statement to the effect that the operational programme was co-financed by the ESF or, where appropriate, the ERDF or the Cohesion Fund

Operation with participants - usually receives funding under an operational programme co-financed by the ESF

Those taking part in the operation have been informed of that funding

Clear notice to the effect that the operation has been selected under an operational programme co-financed by the ESF, the ERDF or the Cohesion Fund

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On-the-spot verifications

Information and Publicity [3/4] – Technical specifications of measures for the public

All information and publicity measures aimed at beneficiaries, potential beneficiaries and the public shall include the following:

the emblem of the European Union, in accordance with the graphic standards set and reference to the European Union

a statement chosen by the managing authority, highlighting the added value of the intervention of the Community, and preferably "Investing in your future"

reference to the Fund concerned

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On-the-spot verifications

Information and Publicity [4/4] – Technical specifications of information and publicity measures for the public

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our ideas, actions for development

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On-the-Spot verifications

Projects Implemented through Public Procurement Contracts

Compliance to Project Fiche

- Controls ensure the implementation and completion of project deliverables as described in project fiche

+

Contract Variations

- Modifications in project deliverables may render part or all of the project non-eligible

+

Deliverables

- Quantity, quality and functionality examined against project financing decision and project fiche

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On-the-Spot verifications

Projects Implemented through Public Procurement Contracts

Tool for controlling variations

Aim for project implementation in accordance to Financing Decision Terms and individual public procurement contract terms, within the time, quantity, quality and cost approved

Limit contract variations as they can cause modifications in the object of the public procurement competition from which the contract resulted

Controlling approval of contract variations determines eligibility of project expenditure

Limiting variations ensures no infringement of competition rules and the principles of transparency, equal treatment and non-discrimination across economic operators

Limited variations signify that the deliverables of the contract will not be varied, incomplete and with limited functionality or scope

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On-the-Spot verifications

Construction Projects Implemented through Public Procurement Contracts

Compliance with basic project design

- Mandatory compliance with the basic project design with which contract was let out to competition

Alteration of object of contract

- No alteration in the basic object of the contract arising from defects and shortcomings of the study

New contractual expenditure

- No introduction of contractual expenditure categories not included during the competition process

Budgetary overshoot of a category of works >2% of the total contract budget

- Maximum allowable rates of variations against the initial **INDIVIDUAL** works category budget have been determined, depending on the nature of the construction contract

Works category budget variations against the initial total contract budget

- Maximum allowable individual works category budget variations against the initial **TOTAL** contract budget have been determined, depending on the nature of the construction contract

Significant reduction in works category budget

- Avoid significant reduction in works category budget or complete cancellation of works category

Tool automatically calculates non-eligible expenditure relating to variations according to above limitations, thus excluded from payment claims submitted

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On-the-Spot Verifications
Durability of Operations

Does not apply to any operation which undergoes a substantial modification as a result of the cessation of the productive activity due to a non-fraudulent bankruptcy

An operation retains the contribution from the Funds only if that operation does not, within five years from the completion of the operation, undergo a substantial modification:

- affecting its nature or its implementation conditions or giving to a firm or a public body an undue advantage
- resulting either from a change in the nature of ownership of an item of **infrastructure** or the cessation of a **productive activity**

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On-the-Spot Verifications
Availability of Documents

Supporting documents must be kept available for the Commission and the Court of Auditors for a period of three years following the closure of an Operational Programme

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On-the-Spot Verifications
Aid Schemes

Projects checked according to terms of financing and procedures determined in Aid Scheme Implementation Guide

Delivery of Product
- Delivery of products and services according to Project Financing Decision

Physical progress
- Physical progress according to approved project fiche

Extent of modifications
- Project undergone substantial modification affecting nature or implementation conditions of operation

Financing Decision
- Financing Decision Terms upheld

Community Policy Compliance
- Terms set by Competent Authorities for Community Policy Compliance upheld (e.g. Environmental terms)

Publicity
- Sufficient information and publicity measures undertaken by Beneficiary [according to nature of project]

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Irregularity

(EC)Reg.1083/2006:

- '*irregularity*': any infringement of a provision of Community law resulting from an act or omission by an economic operator which has, or would have, the effect of **prejudicing the general budget of the European Union** by charging an unjustified item of expenditure to the general budget

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Article 98 EC(Reg.)1083/2006
Financial corrections by Member States

1. The Member States shall in the first instance bear the responsibility for investigating irregularities, ...and making the financial corrections required.
2. ...The corrections made by a Member State shall consist of cancelling all or part of the public contribution to the operational programme. The Member State shall take into account the nature and gravity of the irregularities and the financial loss to the Funds.

   The resources from the Funds released in this way may be reused by the Member State until 31 December ....

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Article 98 EC(Reg.)1083/2006
Financial corrections by Member States

3. The contribution cancelled in accordance with paragraph 2 may not be reused for the operation or operations that were the subject of the correction, nor, where a financial correction is made for a systemic irregularity, for existing operations within the whole or part of the priority axis where the systemic irregularity occurred.
4. In the case of a systemic irregularity, the Member State shall extend its enquiries to cover all operations liable to be affected.

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1st case – ex-ante detection: [Detected by Responsible Authority] Paid by the Beneficiary (Research Example)

- Beneficiary is financed from the Central Government Budget (either Government Department or receives Government Grant to cover budget shortages)
- Payment is made **to** the Beneficiary (during budget approval procedure) before payment is made **by** the Beneficiary
- ***Corrections***
  - *Cannot cancel payment (National Public Contribution) to Beneficiary – Subject to Auditor General applying penalties under National System*
  - *"Educate" the Beneficiary*

No release of resources from the Funds

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2nd case ex-ante detection: [Detected by Intermediate Body] Paid to the Beneficiary

- Beneficiary is a private entity (e.g. SME) – project approved under an Aid Scheme
- Payment is made **to** the Beneficiary (by the Body Granting the Aid)
- ***Irregularity***
  - *Double financing – invoice submitted twice – not detected at the time of paying out grant but detected through controls in the MIS (before verification of expenditure on MIS)*
- ***Corrections***
  - *Order of reimbursement*
  - *Adjustments in the final payment (limit total grant)*
  - *Up-date the IB risk analysis*

No release of resources from the Funds

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3rd case – ex-post detection: [Detected by Audit Authority] Paid by the Commission [1/3]

- Beneficiary - Central Government Department - implements large scale construction project
- Large number of variations during contract implementation
- Based on national regulations, variations can be authorised according to the value of each variation by:
  1. The responsible official in charge of the contract
  2. The Departmental Committee for Variations and Claims
  3. The Central Committee for Variations and Claims

Release of Resources from the Funds

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3rd case – ex-post detection: Paid by the Commission [2/3]

- ***Irregularity:***
  - ***Value of variation calculated wrongly and authorised by wrong Committee (Departmental rather than Central)***
  - ***Amounts paid for variations are unauthorised / irregular / non-eligible***

Release of Resources from the Funds

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3rd case – ex-post detection: Paid by the Commission [3/3]

- ***Corrections***
  - ***Audit Authority / Control Body records Financial Correction in the MIS***
  - ***Amounts taken into account in the next Statement of Expenditure (deducted from the next Application for Payment sent to the EU)***
  - ***Funds cannot be reused by operation***
  - ***MIS automatically limits funds that can be claimed as eligible for the project***

Release of Resources from the Funds

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Key Audit Findings Audit Authority PP2007-2013

- Failure to take adequate publicity measures
- Failure to comply with the recommendations of the certificate of conformity for Non-Discrimination
- Failure to comply with the terms of the certificate of conformity for the Environment
- Private entity closed operation after receipt of grant
- Incorrect calculation of proposed variations to construction contract – authorised by wrong Committee
- Eligibility Rules: No timesheets maintained for documenting time spent on controls of co-funded projects

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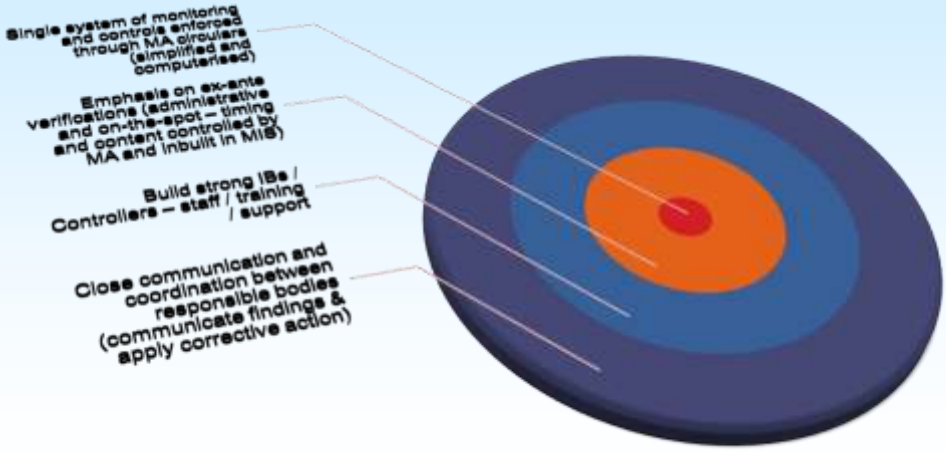
Key Success Factors



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Thank you for your attention

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