

Expenditure verification Report (based on agreed-upon procedures)

Report for an Expenditure Verification of a Grant Contract

External Actions of the European Union

Preparatory activities to support progressive involvement of

Georgia, the Republic of Moldova and Ukraine in the

activities of Transport Community

NDICI-GEO-NEAR/ 2022 / 441-320

In accordance with the ISRS 4400 (Revised) the following specifications apply:

- The Expenditure Verifier conducted the expenditure verification in accordance with the International Standards on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures Engagements;
- The Expenditure Verifier makes no representation regarding the appropriateness of the agreed upon procedures;
- The agreed-upon procedure is not an assurance engagement and accordingly the Expenditure Verifier does not express an opinion or an assurance conclusion;
- Had the Expenditure Verifier performed additional procedures, other matters might have come to their attention that would have been reported;
- The agreed-upon procedures involved the Expenditure Verifier performing the procedures set out in Annex 2 to the Terms of Reference that have been agreed with the Contracting Authority, and reporting the findings. Findings are the factual results of the agreed-upon procedures performed; the Contracting Authority acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement;
- The Reporting Entity as identified by the Contracting Authority is responsible for the subject matter on which the agreed-upon procedures are performed;
- The expenditure verification report is intended for the purpose specified in the Terms of Reference on which the Contracting Authority agrees to engage the Expenditure Verifier and may not be suitable for another purpose;
- The Expenditure Verifier carried out the engagement in accordance with the IFAC Code of Ethics for Professional Accountants and the fundamental ethical principles and independence requirements established therein, namely: integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards.
- The Expenditure Verifier applies the International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.
- Detailed specifications have been agreed between the Contracting Authority and the Expenditure Verifier and they have been stipulated in the 'Terms of Reference for an Expenditure Verification'. The Terms of Reference are an integral part of the contract concluded between the Contracting Authority and the Expenditure Verifier.

1. Background information

1.1. Short description of the action subject to verification

Contract number and title:	NDICI-GEO-NEAR/ 2022 / 441-320 “Preparatory activities to support progressive involvement of Georgia, the Republic of Moldova and Ukraine in the activities of Transport Community”
Contract type	Grant contract
Financial Report(s) subject to verification	01/01/2023-31/12/2023
Coordinator and other Beneficiary(ies) and affiliated entity(ies)	<p>Coordinator (as well as Beneficiary) - Permanent Secretariat of the Transport Community (the “Secretariat” or “the Coordinator”), international organization formed under Treaty of establishing the Transport Community</p> <p>The Transport Community has been established based on the Treaty signed between the European Union (Official Journal of the European Union No. L 278 p.3- 53) and the Republic of Albania, Bosnia and Herzegovina, the Republic of North Macedonia, Kosovo, Montenegro and the Republic of Serbia. The aim of the Treaty is the creation of a Transport Community („the TCT“) in the field of road, rail, inland waterway and maritime transport as well as the development of the transport network between the European Union and the South East European Parties. In order to implement the Treaty provisions and make the Transport Community operational, a Permanent Secretariat has been established. The seat of the Secretariat is in Belgrade, at 5/8 Masarikova Street. The Secretariat enjoys diplomatic privileges and immunities including exemption from any taxes such as VAT.</p> <p>The Transport Community is an international organisation in the field of mobility and transport, consisting of 33 participants – the entire EU and South East European Parties. The TCT is working on the integration of Western Balkans transport markets into the EU, by assisting the South East European Parties to adopt and implement the EU legislation in the field of transport and by supporting projects that are connecting Western Balkans regional partners among themselves and with the EU.</p> <p>The Secretariat has been registered in the Republic of Serbia as a Legal Entity with attributions of privileges and immunities as defined by the HQ Agreement. Its inauguration took place on 13 September 2019. The Organization's register number is 17921304 and its tax identification number is 111305000.</p> <p>The Secretariat is tasked to:</p> <ul style="list-style-type: none">- provide administrative support to the TCT working bodies;- monitor the performance of the indicative TEN-T extension of

	<p>the comprehensive and core networks to the Western Balkans;</p> <p>- support the implementation of WB6 Parties Connectivity Agenda aiming to improve links within the Western Balkans as well as between the region and the European Union.</p>
Location(s) where the Contract is implemented	Belgrade
Contract execution period	01/01/2023-31/12/2023
Contract implementation status	completed
General and specific objectives of the Contract	<p>The overall objective is to progressively involve Ukraine, the Republic of Moldova and Georgia in activities of the Transport Community in view of closer association with EU transport markets and the enlargement process.</p> <p>The project specific objective is to increase the capacities and better understanding of EU transport policies and priorities of Georgia, Moldova and Ukraine in view of their more systematic involvement in the Transport Community. The outputs to be delivered by this action contributing to the corresponding specific objectives are: (1.1) gradual engagement of relevant transport stakeholders from Ukraine, Moldova and Georgia in relevant TC working bodies and major events; (1.2) development of baseline reporting on EU-acquis alignment and the overall transport sector of Ukraine, Moldova and Georgia.</p>
Synthetic description of the activities, outputs and target group	<p>On 15 November 2022 the Ministerial Council endorsed a joint statement advocating for the systematic involvement of Georgia, the Republic of Moldova and Ukraine as observing participants in the work of the Transport Community. This invitation has marked a significant stride toward the possible full membership of the observing participants in the TCT, holding substantial importance in the context of their ongoing efforts to align with EU standards and regulations.</p> <p>TCT engagement with the observing participants commenced promptly and developed gradually, being supported through EU Grant no. NDICI-GEO-NEAR/2022/441-320 concluded on 23.12.2022. Throughout 2023, the cooperation with the Observing Participants was set on systematic bases, yielding the following main outcomes:</p> <ul style="list-style-type: none"> - Participation of representatives from the Observing Participants in around 50 meetings and events organised under the Transport Community framework, as following: <ul style="list-style-type: none"> o 90 participants from Georgia (79 in person, 11 online); o 62 participants from Moldova (45 in person, 17 online); o 34 participants from Ukraine (30 in person, 4 online). - Drafting of the indicative Action Plans for the Observing Participants, mirroring the approach convened with

the Western Balkans' regional partners.

- Drafting of preliminary/light versions of two key reports of the Transport Community:

o Status of the development of the indicative TEN-T extensions in Georgia, Republic of Moldova and Ukraine;

o Status of TCT Annex I transposition.

The Action Plans and the reports referred at above were presented during the RSC meeting on the 11th of December 2023.

Building upon the experience gained in 2023, cooperation with the Observing Participants is poised to increase in the upcoming period. On 23 December 2023, a new grant agreement was concluded (ref. no. NDICI-GEO-NEAR/2023/452-688) for the participation of Georgia, the Republic of Moldova and Ukraine in the Transport Community during 2024 and 2025.

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)
<i>Human Resources</i>	<i>EUR 19,800.00</i>	<i>EUR 13,942.67</i>
<i>Travel</i>	-	-
<i>Equipment and supplies</i>	<i>EUR 7,690.00</i>	<i>EUR 1,665.34</i>
<i>Project office</i>	<i>EUR 780</i>	<i>EUR 490.74</i>
<i>Other costs, services</i>	<i>EUR 131,039.11</i>	<i>EUR 119,158.21</i>
Total direct eligible costs	EUR 159,309.11	EUR 135,256.95
Indirect costs	-	-
Provision for contingency reserve	EUR 7,965.46	-
Total	EUR 167,274.57	EUR 135,256.95

1.2.2 Contributions

Source of Contribution	Budgeted Contribution (amount)	Actual Contribution (amount)
EU	EUR 167,274.57	EUR 127,447.29
Coordinator	-	-
Other Beneficiary(ies) and affiliated entity(ies)	n/a	n/a
Other Donor 1	n/a	n/a
Total	EUR 167,274.57	EUR 127,447.29

1.2.3 Revenues

Revenue Types	Budgeted Revenues (amount)	Actual Revenues (amount)
European Union contribution	EUR 167,274.57	EUR 127,447.29
Total	EUR 167,274.57	EUR 127,447.29

1.3. Verified Financial Reports

See annex 3.1

2. Risk analysis

2.1. Outcome of risk analysis

Based on the risk analysis performed according to the Terms of Reference, we have identified the following risks:

a) Management override of controls

There is an assumption that lower level staff may disregard their limits of authority and bypass the decisions of senior management. There can also be a risk of management fraud on posting journal entries without appropriate authorisation, that could have an impact on expenditure and/or revenue reported under the contract.

b) Improper revenue recognition

There is a presumption of fraud risk related to revenue recognition. Revenue is a significant class of transaction and under the revised ISA 240, revenue recognition is presumed to be a specific financial statements fraud risks. Due to fraudulent financial reporting there is a risk that the Financial Report is not reliable, i.e. that it does not present, in all material aspects, the actual expenditure incurred and the revenue received in conformity with applicable conditions. Also there is a risk that revenues generated in the execution of the contract are not deducted from the declared expenditure in conformity with applicable conditions.

c) Expenditures manipulation

There is a risk that the expenditures declared in the financial reports have not, in all material aspects, been incurred in conformity with the applicable contractual conditions or within the purpose of the donor funded project.

In addition, please identify possible mitigating factors.

In TCT Secretariat there is a financial control mechanism based on segregation of duties, as follows:

Step	Action	Actor
1	Request for service/goods is issued	Initiating officer
2	Confirmation of budget availability	Financial Officer
3	Expenditure is endorsed	Deputy Director
4	Expenditure is approved / budgetary commitment made	Director

By implementing the controls in the ex-ante phase TCT Secretariat eliminate the risk of incurring expenditure which were not previously approved, and for which no budgetary allocation is made in advance.

Ex-post phase:

Step	Action	Actor
1	Invoice is received	Finance Office
2	Confirmation is provided on goods/service delivery	Initiating Officer
3	Financial Verification	Financial Officer
4	Confirmation	Deputy Director
5	Validation	Director
6	Payment is prepared	Financial Officer
7	Payment is confirmed	Deputy Director
8	Payment is executed	Director

The ex-post phase ensures that payments are made for expenditure which were already approved, for which there is a confirmation that the goods/services have been provided, that the invoice details are correct, and that the payment is going to the right vendor.

With regards to the journal entries for expenditure, they are also presented to the Deputy Director for review along with the 'Validation of Expenditure' checklist.

Furthermore, the role of the Accounting Officer is well-defined in the *Financial rules and auditing procedures*. Making the journal entries is the responsibility of the Accounting Officer.

Considering the small size of the organisation no further segregation is possible.

The Transport Community has no other revenue sources (as per *Financial rules*) than the budgetary contributions to the main budget, and the grant contribution from the European Commission. Fund receipts are recognised and recorded into the accounting system when funds are received in the relevant bank account. For any incoming payment, there is relevant documentation prepared well ahead which is always signed by the Director (Authorising Officer). Debit Notes are issued for budgetary contributions to the Main Budget, and the Payment Requests are issued for the Grant Contract. Furthermore, the Director and Deputy Director have access to the bank account where they are able to monitor the movements of incoming and outgoing flow of funds.

Financial reports, including trial balance, bank reconciliations, budget vs actual report, are also reviewed by Financial Officer and Deputy Director and finally approved by Director.

2.2 Implications on the sampling

Explain how the identified risk factors are reflected in the structure and size of the sample.

Based on the identified risk factors, when determining the sample size for substantive procedures, we take into account the assurance we require from the procedures, the performance materiality relating to the transactions being examined, the assurance already obtained from other procedures relating to the financial statements area and assertion being tested and the risk that the sample is not reflective of the population.

Taking into account value of the population and number of sampling units in the population we have decided that it will be most appropriate and cost effective to examine the entire population.

The coverage ratio is 100%, which is equal to EUR 135,256.95 and 402 transactions. We have also verified other connected GL entries presented within the General ledger.

3. Transaction population and sample

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.

Report/invoice: Financial report: period 01 Jan 2023 - 31 Dec 2023		
	Population	Verified sample
Number of transactions	402	402
Value of transactions EUR	EUR 135,256.95	EUR 135,256.95

A complete list of the transactions included in the population is to be included in Annex 3.3.

There were no cases where the report/invoice amounts were different from that of the relevant accounting records.

4. Substantive testing

Short description of the testing process

Compliance with the Terms of Reference and with the International Standard on Related Services (ISRS) 4400 (Revised).

Our engagement was undertaken in accordance with:

- (i) International Standard on Related Services (“ISRS”) 4400 Engagements to Perform Agreed-upon Procedures regarding Financial Information as promulgated by the International Federation of Accountants (“IFAC”); and
- (ii) IFAC Code of Ethics for Professional Accountants and the fundamental ethical principles and independence requirements established therein.

In relation to the above, we have performed the procedures listed in Annex 2 of Terms of reference for an Expenditure verification of a grant contract (see Annex 3.2 of this Report).

Provide the key information about the testing process.

The verification work took place at the implementing partner's premises, and qualified representatives of the auditee were present. The Coordinator’s staff were cooperative.

We have gathered evidence and prepared working papers to properly document the evidence to support our findings. We have also reviewed and evaluated the system of internal controls in order to gain an understanding of processes and controls within the Project.

All the supporting documentation was available in full. The original documents are archived and available for inspection at any time. Proof of receipts and payments have been properly furnished in the form of vouchers, the original vouchers have been presented structured in conformity with the items of the financing plan and in chronological order. The payments, for which evidence has been supplied, are in keeping with the appointed purpose as set out in the Financing plan

We have performed the agreed-upon procedures listed in Annex 2- *Guidelines for Risk Analysis and Verification Procedures* (Terms of reference for an Expenditure verification of a grant

contract), and attached as Annex 3.2: *Procedures performed*, to this Expenditure Verification Report, in respect to the attached Financial report for the project “Preparatory activities to support progressive involvement of Georgia, the Republic of Moldova and Ukraine in the activities of Transport Community” (Annex 3.1- “Financial reports provided by the auditee “), prepared by the management of the Coordinator.

There were no scope limitations.

5. Summary of findings

5.1 Description of findings detected

Summary of findings

We have audited the Financial Report of the Project on the basis of the terms of use made available to us, and we report our findings below:

a) With respect to Point 1 Annex 3.2, we have confirmed that the expenditures were incurred by and pertain to the Coordinator

b) With respect to Point 2. Annex 3.2, we have verified and confirmed that the expenditures were recorded in the accounting system of the Coordinator in accordance with the applicable accounting standards and the Coordinator’s usual cost accounting practices (accrual basis of accounting). Pursuant to the above, we confirm acceptability of applied accounting principles for this type of project financial reporting.

c) With respect to Point 3 Annex 3.2, we have verified and confirmed that the expenditures declared in the financial report were incurred during the contractual implementation, except for expenditure relating to final reports, expenditure verification, audit and evaluation. Expenditures paid after the submission of the financial report that are higher than EUR 500 are listed in the final report along with the estimated date of payment.

d) With respect to Point 4 Annex 3.2, we have examined the financial report that we have received from the Coordinator, and have concluded that template submitted by EU was used for the preparation of the Project’s financial report. The template is supported by excel formulas which immediately calculate the variance between budgeted and occurred expenditures.

In accordance with abovementioned, we confirm that the financial report includes a comparison for every budget item between the actual costs/expenditures of activities and the budgeted costs/expenditures approved by EU for the reporting period, that the major budget ceilings were not exceeded (with the exception of two sub budget ceiling with the deviation less than 10% from budgeted costs) and that the expenditures have been allocated to the correct heading of the financial report

e) With respect to Point 5 Annex 3.2, we have verified that expenditures included in the financial report were necessary for the implementation of the contractual activities, and that the amount of the expenditure items included is reasonable and justified and respects the principle of sound financial management.

f) With respect of Point 6 Annex 3.2, we have examined 100% of the relevant documentation for incurred costs per each budget line within the Project’s financial report (Appendix 3.1), in order to check the basis for recording. In order to confirm proof of occurrence of reported expenditures, we conducted the review of relevant documentation including: invoices and / or agreements with suppliers, order forms, pay slips, work contracts, monthly payroll recapitulations (which we confirmed to be in accordance with the work contract for each employee engaged during the observed period), calculation and payment of taxes and social security contributions, as well as timesheets for employees. In addition, we inspected the bank statements to confirm payment of mentioned expenditures.

We have concluded that all incurred costs, including salary costs, presented in the Project's financial report, are adequately documented. Also the analytical records relating to all expenditures are properly set up, and the original documents are archived and available for inspection at any time.

g) With respect of Point 7 Annex 3.2, we have concluded compliance with the procurement guidelines and principles of the Coordinator, and nationality and origin rules have been applied.

h) With respect to Point 8 Annex 3.2, we have tested compliance with applicable rules and regulations in regard to taxes and social security fees during the reporting period. We have also tested the accuracy of payments regarding to the taxes and social security fees. By examining the payslips, monthly tax returns and bank statements we have verified that the Coordinator complies with relevant tax legislation in force.

i) With respect to Point 9 Annex 3.2, there were no partner organizations within the frame of this project, the Coordinator is the sole implementing organization.

j) With respect to Point 10 Annex 3.2, we have confirmed that all expenditures in the financial report are presented in net amount excluding VAT.

The funds received from EU are held in EUR within the commercial bank. The Coordinator has the bank accounts (in RSD and EUR) opened exclusively for the implementation of the Project. However some of the expenditures have initially been paid through the main TCT account, and after that refunded/transferred from the project bank account to the main TCT account.

Expenditures paid in RSD were translated into EUR using exchange rate at the day of the transactions.

We have confirmed that expenditures specifically considered ineligible by the contractual conditions were not included in the financial report, also no contingency reserve has been established, there were no indirect costs nor contributions in kind that have been included within the financial report

Total of 100% of the received funds have been audited by the date. The revenues generated by the Coordinator (EUR 127,447.29) were disclosed in the financial report and deducted from the declared expenditure (EUR 135,256.95). Cash balance at the end of the reporting period is disclosed in EUR and is negative (EUR 7,809.66).

We have nothing to report in respect of this matter.

Summary of errors detected

None.

Classification of errors by compliance issue.

None

5.2 Verification team

1. Iva Cvetanović, FCCA, Licensed Auditor, Engagement partner

2. Marija Bjelopavlović, Certified Auditor, Consultant

3. Zlatko Grudenić, Certified Accountant, Manager

Date, name and signature of the Verifier:

In Belgrade, 24 May 2024

Iva Cvetanović, Partner, CEO
FCCA, Licensed Auditor
Društvo za reviziju računovodstvo I konsalting
‘‘IVALEX’’ doo Belgrade
25 Darwinova Street, 11000 Belgrade, Serbia

Annex 3.1: Financial reports provided by the auditee

Annex 3.2: Procedures performed

Annex 3.3: Table of transactions - provided as Excel file

Annex 3.4: Table of errors - provided as Excel file