

DESCRIPTION OF THE MANAGEMENT AND CONTROL SYSTEM

Iceland 
Liechtenstein
Norway grants



**REPÚBLICA
PORTUGUESA**

PLANEAMENTO
E INFRAESTRUTURAS



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Abbreviations

AA	Audit Authority
ADC	Cohesion and Development Agency P.I.
CA	Certifying Authority
CU	Certifying Unit
COSO	Committee of Sponsoring Organizations of the Treadway Commission
EEA	European Economic Area
EEAFM	European Economic Area Financial Mechanism
EFTA	European Free Trade Association
ESIF	European Structural and Investment Funds
FBR	Fund for Bilateral Relations
FMC	Financial Mechanism Committee
FMO	Financial Mechanism Office
FPR	Final Programme Report
IFAC	International Federation of Accountants
IFR	Interim Financial Report
IGCP	Portuguese Treasury and Debt Management Agency
IGF	General Inspectorate of Finance
INTOSAI	International Organization of Supreme Audit Institutions
JCBF	Joint Committee for Bilateral Funds
MoU	Memorandum of Understanding
PO	Programme Operators
RCM	Council of Ministers Resolution
SGPCM	General Secretariat of the Presidency of the Council of Ministers
TA	Technical Assistance
UNG	National Management Unit

1. Context

The European Economic Area (EEA) is composed by the Member States of the European Union and the European Free Trade Association (EFTA) countries, Iceland, Liechtenstein and Norway, which share the same Internal Market.

Through the European Economic Area Financial Mechanism (EEAFM) 2014-2021, Iceland, Liechtenstein and Norway, as Donor States, finance, in 15 European Union Member States, initiatives and projects in several programmatic areas, to:

- **Reduce the economic and social disparities;**
- **Strengthen the bilateral relations between Donor and Beneficiary States.**

The Regulation for the implementation of the EEAFM 2014-2021, hereinafter referred to as the Regulation, establishes in Article 5.1 that the Beneficiary State is responsible for the management and control of the Programmes. The management and control systems established by the Beneficiary State for the EEAFM 2014-2021 must ensure compliance with the principles of accountability, economy, efficiency and effectiveness.

Management and control systems shall foresee:

- a) The definition of the functions of the entities involved in the management and control and the distribution of functions within each entity;
- b) The compliance with the principle of separation of functions between and within such entities;
- c) The procedures to ensure the correctness and regularity of the expenditure;
- d) The reliable accounting, monitoring and financial reporting systems in computerized form;
- e) A reporting and monitoring system when the entity in charge delegates the execution of tasks to another entity;
- f) The provisions for audits to the functioning of the systems;
- g) The systems and procedures to ensure an adequate audit trail;

- h) The procedures for reporting and monitoring irregularities and recovering unduly paid amounts.

2. Organizational Structure of the EEAFM

According to Article 5.2 of the Regulation, the entities in charge of the implementation of the EEAFM 2014-2021 were designated in the Memorandum of Understanding (MoU), signed on May 22nd, 2017, between the Donor States (Iceland, Liechtenstein and Norway), as described below:

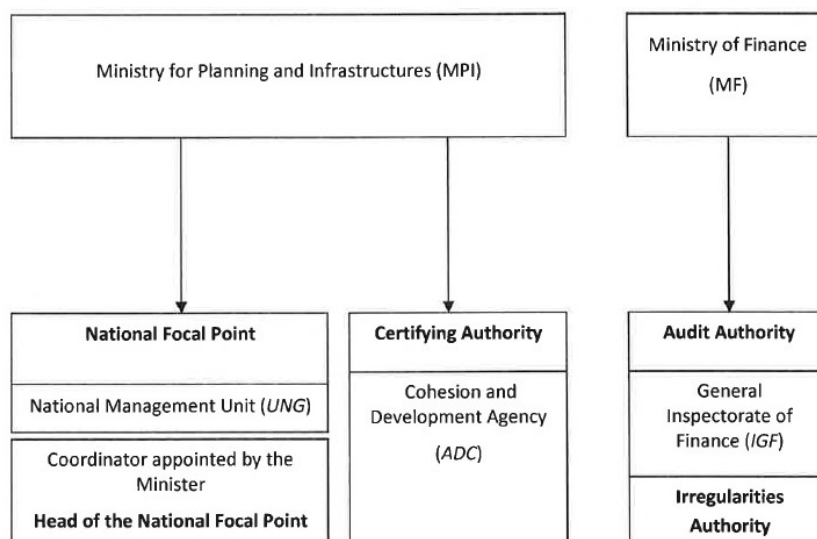


Image 1

The fact that the National Focal Point and the Certifying Authority operate within the same Ministry does not affect the independence of its operation, as described in this document.

2.1. National Focal Point

The National Management Unit (UNG) of the EEAFM, created by the Council of Ministers Resolution (RCM) no. 39/2017, of March 10th, rectified by the Rectification Declaration no. 14/2017 of April 24th, is a management structure that acts as a National Focal Point

with the attributions defined in the Memorandums of Understanding and Regulations of the EEAFM 2009-2014 and EEAFM 2014-2021.

According to the provisions of Article 24, no. 2 e) of Decree-Law no. 251-A/2015, of December 17th, which approved the organization and functioning of the XXI Constitutional Government, the UNG of the EEAFM is under the supervision of the Minister for Planning and Infrastructures.

According to order no. 2312/2016, published in the Diário da República, 2nd Series - no. 21, of February 1st, 2016, the Minister for Planning and Infrastructure has delegated to the Secretary of State for Development and Cohesion the responsibilities to all matters and practice of all acts concerning the UNG of the EEAFM.

The UNG is composed by a coordinator, a deputy coordinator and four collaborators.

According to Article 11, no. 8 of the referenced Decree-Law no. 251-A/2015 and no. 7 of the mentioned RCM no. 39/2017, of March 10th, the General Secretariat of the Presidency of the Council of Ministers (SGPCM) is the entity that provides the necessary administrative and logistical support for the operation of the UNG of the EEAFM.

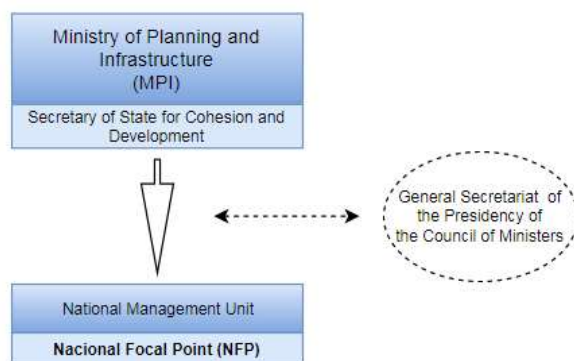


Image 2

According to the provisions of Article 5.3 of the Regulation, UNG, as the National Focal Point, has the overall responsibility of ensuring that the Programmes contribute to the fulfillment of the objectives of the EEAFM 2014-2021 in Portugal, as well as ensuring its implementation in accordance with the principles of implementation provided in Article 1.3 of the Regulation. The National Focal Point serves as a contact point for the Donor States and is responsible for implementing the MoU.

The main functions of the UNG, as provided in the Regulation and in the MoU, are to:

- a) Represent Portugal in its relations with the Financial Mechanism Committee (FMC) and the Financial Mechanism Office (FMO);
- b) Ensure the dissemination to the public of information about the existence of the EEAFM 2014-2021 in Portugal and ensure that Programme Operators (PO) comply with their information and advertising obligations according to the requirements of Article 3.2 of the Regulation;
- c) Ensure that the Programmes are implemented according to the legal framework of the EEAFM 2014-2021 referred to in Article 1.5 of the Regulation;
- d) Regularly monitor the progress and quality of the implementation of the Programmes in relation to the progress of the indicators established for the contracted objectives and results and according to their financial conditions for reporting in the Annual Strategic Report;
- e) Regularly monitor the risk of the Programmes in relation to their progress, results and defined objectives for reporting in the Annual Strategic Report;
- f) Organize the Annual Meeting with the FMC/FMO;
- g) Coordinate and manage the Technical Assistance (TA) provided for in Article 1.10 of the Regulation and the Fund for Bilateral Relations (FBR) provided for in Article 4.6 of the Regulation;
- h) Establish and chair the Joint Committee for the Bilateral Funds (JCBF), pursuant to Article 4.2 of the Regulation;
- i) Approve the Descriptions of the Management and Control Systems of the PO, pursuant to Article 5.7 of the Regulation;
- j) Monitor the audits conducted by the EFTA's Board of Auditors and the on-site audits and verifications conducted by the FMC.

2.2. Certifying Authority

The functions of Certifying Authority for the EEAFM were appointed to the Cohesion and Development Agency P.I. (ADC), as designated in Annex A of the MoU. The exercise of the functions of Certifying Authority for the EEAFM 2014-2021 is attributed by the ADC within the scope of its organic law, namely pursuant to Article 3, no. 4 of paragraph e) - Mission and attributions - of Decree- Law no. 140/2013 of October 18th.

The competencies of the Certifying Authority cannot be delegated.

As established by Decree-Law no. 140/2013, of October 18th, ADC is a public institute of special regime, integrated in the indirect administration of the State, endowed with administrative and financial autonomy of its own patrimonial assets. ADC is part of the Ministry for Planning and Infrastructures. According to the order no. 2312/2016, published in Diário da República, 2nd Series - no. 21, of February 1st, 2016, the Minister for Planning and Infrastructures has delegated to the Secretary of State for Development and Cohesion the competences related to all matters and the practice of all acts relating to the ADC.

The mission and attributions of the ADC are defined in Article 3 of Decree-Law no. 140/2013, of October 18th, and its internal organization is defined in its Statutes published in Ordinance no. 351/2013, of December 4th.

ADC mission is to coordinate the regional development policy and to ensure the overall coordination of the European Structural and Investment Funds (ESIF).

The ADC is structured as follows:

The Cohesion and Development Agency P.I.

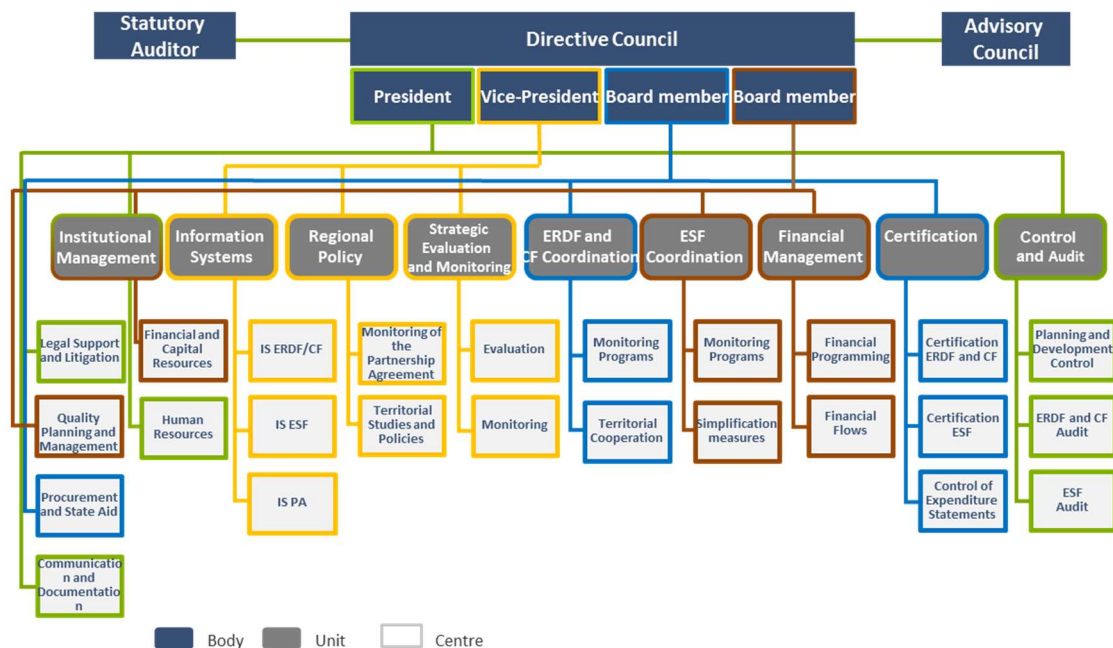


Image 3

As evidenced, ADC's internal organization safeguards the principle of the separation of duties, in line with good management practices. This way, the control and audit functions rely on the Chairman of the Board of Directors, the certification function and the payment function rely on different members of the Board of Directors.

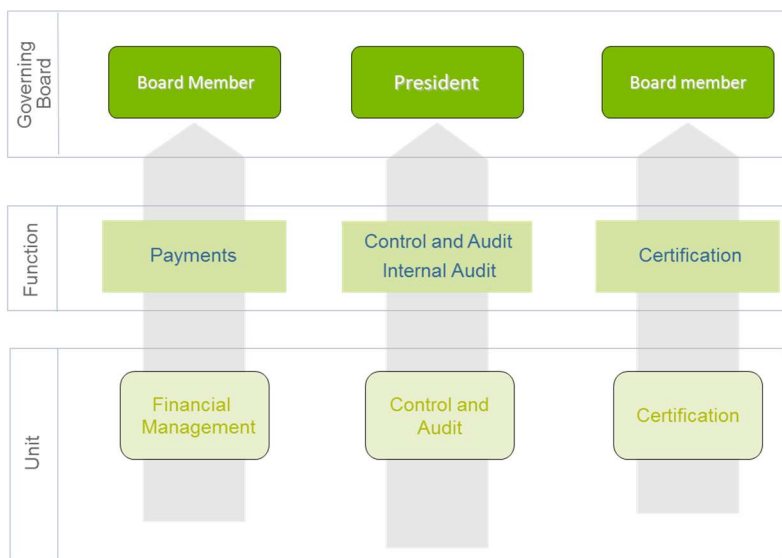


Image 4

Regarding situations of absence or impediment, it was established that the powers delegated to the Member of the Board of Directors with certification responsibilities shall be exercised by the Vice-Chairman of the Board of Directors. Regarding the payment powers, in situations of absence or impediment of the Member of the Board of Directors in charge of this area, the payment powers shall be exercised by the Chairman of the Board of Directors.

Within the scope of the EEA FM 2014-2021, the ADC duties as a Certifying Authority are to:

- a) Ensure the communication with the FMO services in matters related to certification and payments;
- b) Perform the functions of Certifying Authority for the Programmes of the EEA FM 2014-2021, except for the Civil Society Programme, including the Technical Assistance Fund (TA) and the Fund for Bilateral Relations (FBR);
- c) Perform the functions of Paying Entity of the funds of the EEA FM 2014-2021;
- d) Ensure computerized registration and an appropriate audit trail for certification of expenses and payments;

In particular and pursuant to Article 5.4 of the Regulation, the Certifying Authority is responsible for:

- a) Submitting to the FMC the *Interim Financial Report* (IFR) and the *Final Programme Report* (FPR) and ensure that the IFR and FPR come from reliable accounting systems, which are based on verifiable supporting documents and were verified by the PO and the UNG regarding the TA and FBR Funds;
- b) Certifying the entirety, accuracy and authenticity of the declared expenditure and that it complies with the applicable legislation, corresponding to the projects selected and approved in accordance with the Programme criteria, namely the *programme agreement*;
- c) Ensuring the existence of an adequate audit trail and that the financial co-financing of the Programme has been paid;

In order to maintain an adequate audit trail, all checks carried out by the CA will be supported by checklists (to be defined in the CA Procedures), which includes information about the location of the files and supporting documentation, as well as the CA analysis results and the internal CA proposals for decisions and the CA effective decisions taken by the CA board regarding the verifications made to the IFR/FPR.

The confirmation that the co-financing of the Programme has been paid will be done together with the confirmation of the regular payments to the projects supported by payment proof (bank transfers, e.g.). The PO should provide sufficient supporting documentation that allows the confirmation of the regular payment of both EEA contribution and Programme co-financing.

d) Sending to the FMC the forecasts of likely payment applications.

The CA shall submit to the FMO the forecast of likely payments four times a year, by 20 February, 20 April, 20 September and 20 November. To accomplish this procedure the CA will timely by email request, to each PO, information about the financial needs to support the beneficiaries payments requests.

For the determination and the correctness of the forecast of likely payments will take in account the previous certified amounts, the previous forecast of likely payments, the financial rhythm of the Programme, the annual approved budget and the expectations from the PO about the financial needs.

If the expectations from the PO are out of the financial performance, the CA will request additional information to clarify the sustainability of the data received.

e) Declaring, annually, the existence of any interests earned on the bank accounts specific to the EEAFM, held by the Certifying Authority, as a Member State, or by the PO and the UNG.

In the beginning of each year, the Certifying Authority (Financial Management Unit) requests, by email, a proof declaration to each PO, where they confirm the existence of any interest earned in the bank accounts. The Certifying Authority will report to the FMO, as part of the IFR to be send by 15 march, the information

about the existence of interest in the bank accounts held by each Programme. As the PO are integrated in the public administration, by national law the bank accounts are non-interest-bearing and must be held in the “Portuguese Treasury and Debt Management Agency - IGCP, E.P.E.” that is the public entity responsible for the integrated management of cash, funding and the direct debt management, which includes, under the applicable law, the debt of public corporations whose financing is ensured through the state Budget.

If in an exceptional case, any PO or the UNG report the existence of interest, these amounts will be reported in the relevant IFR and will be taken in account for the calculation of the final balance.

- f) Taking into account, for the purpose of certification, the results of all audits carried out by the Audit Authority or under its responsibility, or by other entities with the powers to do so.

Taking into account the consolidated map of the irregularities received, in a quarterly basis, from the UNG/Irregularities Authority, identifying all the irregular amounts from all the audits and verifications, the CA will confirm for the errors whose regularization is not yet reflected in the previous IFR submitted to the FMO, that the expenditure declared by the PO/UNG in the IFR/FPR under analysis reflects the deduction of these errors.

For that confirmation, the CA will in a formal and financial verification identify the deduction of the irregular amount in the List of expenditures of the projects reported by the PO to the CA in addition to the IFR. Subsequently, and whenever necessary, detailed analyzes will be performed by requesting additional information to the PO.

For situations not yet regularized by the PO the CA could consider the adoption of preventive measures by suspending the irregular amounts from the certification report until the irregular amounts being deducted by the PO.

Also in this context, and in particular with regard to the open recommendations whose possible financial impact is not quantified, the CA will analyze these situations in detail and consider the adoption of preventive measures.

- g) Maintaining accounting records, in electronic format, of certified expenditure to the FMC.

In order to consolidate and monitor the financial information, the CA will organize an internal excel based system that allows the accounting and financial monitoring for each project and for each Programme, including the expenditure incurred directly by the PO and by the UNG. Beside the information from the FMO IT system, and in the absence of an integrated IT system, the CA will design a excel accounting system in order to follow and have actual information about the expenditure declared to the FMC in each IFR until the FPR.

The Development and Cohesion Agency adopted an IT security policy that the backup for information protection based in EMC/AVAMAR system with two grids for information backup. The 2nd grid (for information replication) will, in the short term, be housed in an alternate datacenter as an active part of the Business Continuity Plan. There are also backups in external disk being stored in specialized enterprises.

The computerized information access is done through the binomial user/password. The password must be changed every 42 days with validated complexity (numbers, case and special characters). A map of failed accesses for analysis is produced daily and automatically.

The MFEED 2014-2021 certification information will be stored in the computerized Certifying Unit area to which only the elements affected will have access.

- h) Ensuring that, except in duly substantiated situations, payments to the PO and the UNG are made within a maximum period of 15 working days after receipt of FMC transfers;
- i) Ensuring that the amounts recovered and that the amounts withdrawn following cancellation, in whole or in part, of the financial contribution to a project or Programme are returned to the FMC prior to the closure of the Programmes.
- The procedures established by the CA to ensure that the irregular amounts have been corrected and subject to cancellation by the PO, involves the confirmation

that the irregular amounts were effectively deducted and the unduly paid amounts are recovered by the PO and that there is evidence of cancellation/suppression of public participation (eg financial reprogramming of the operation). In situations where there is no evidence of cancellation¹, the CA will confirm that the total eligible expenditure incurred in a project does not exceed the amount approved deducted of the corresponding correction of the irregular amount. Depending on the results, the CA will consider the adoption of preventive measures until the regularization by the PO.

For the Programme level corrections the CA will recover the unduly paid amounts in order to return those amounts to the FMC prior to the closure of the Programmes.

- j) Ensuring the creation and maintenance of a bank account specific for the EEAFM 2014-2021.

2.2.1. Certifying Unit

The duties of the ADC as Certifying Authority are exercised, pursuant to Article 9 of Ordinance no. 351/2013, of December 4th, through its Certifying Unit (CU).

Regarding the EEAFM 2014-2021, it is up to the CU as a Certifying Authority to:

- a) Ensure the compliance with the functions of Certifying Authority for the Programmes of the EEAFM and for the UNG with respect to the TA and FBR;
- b) Perform the control of the payment claims submitted by the POs and the UNG;
- c) Proceed with the financial corrections that may have to be made regarding the support granted by the EEAFM.

The CU, as stipulated in the Deliberation of the Board of Directors of 01/04/2014, consists of 3 organizational Sub-Units:

¹ This procedure refers to the Regulation 13.2.2.

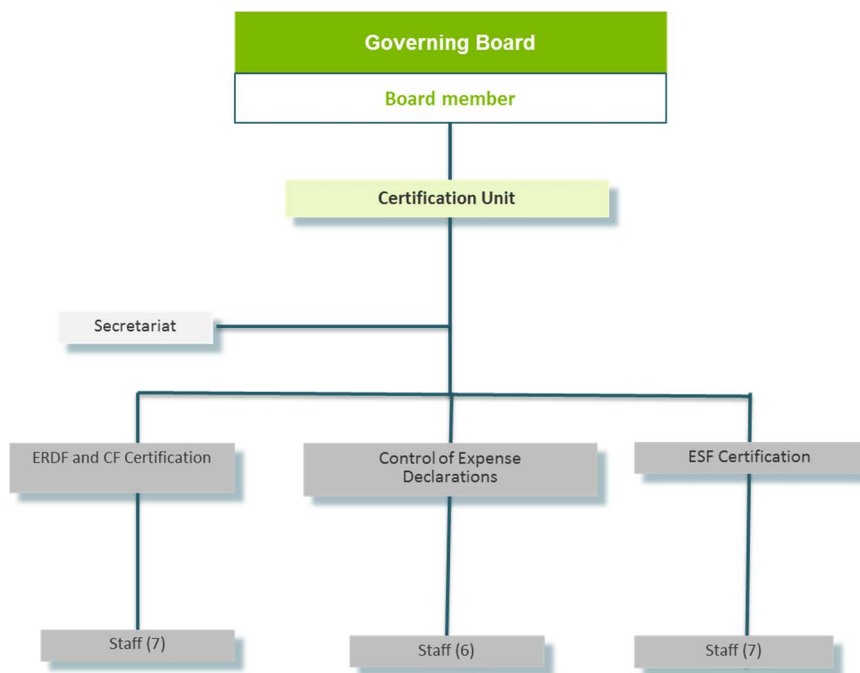


Image 5

As far as the EEA FM 2014-2021 is concerned, only the intervention of the FEDER and CF Certifying Sub-Units is considered, being responsible for, inter alia, by:

- Ensuring the compliance with the functions of Certifying Authority related to the certification process of the Programmes, the TA and the FBR under the scope of the EEA FM 2014-2021;
- Preparing the forecasts of likely payment applications for the current financial year and for the following financial year;
- Assessing, monitoring and keeping up to date and systematized the elements related to the financial flows;
- Keeping computerized accounting records of the expenditure declared to the FMC.

2.2.2. Payments workflow

Within the scope of the ADC structural organization, the functions of the Paying Entity of the EEA FM are centered in the Financial Management Unit.

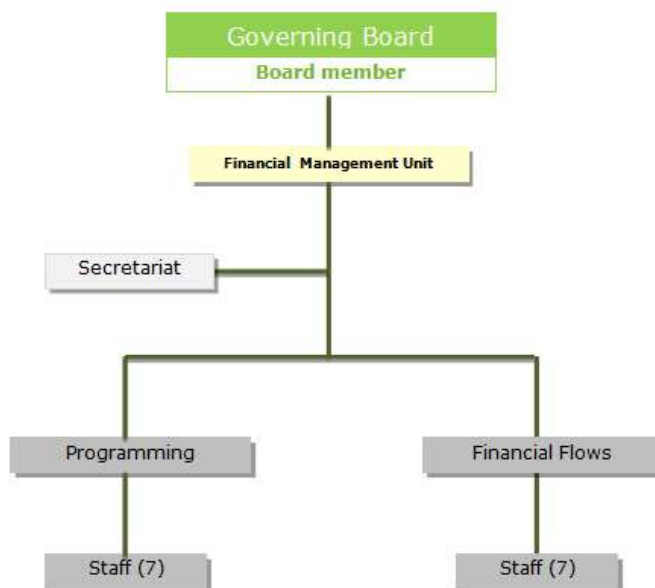


Image 6

Pursuant to Decree-Law no. 140/2013, the management of financial flows under the EEAFM is ensured by the ADC, obeying the following rules and circuits:

- a) The contributions of the EEAFM 2014-2021 granted under the Programmes, of the TA and the FBR, are credited by the FMO directly into a specific bank account created for this purpose by the ADC with the IGCP – Portuguese Treasury and Debt Management Agency;
- b) The received contributions are transferred by the ADC to the bank accounts created by each PO and UNG within a maximum period of 15 working days, ensuring that certain conditions are met (e.g. that the tax obligations of the entities that regulate the destination accounts are fulfilled; that no national entities or the FMO have indicated the existence of suspended payments and the confirmation by the PO/UNG of the banking information or other information deemed necessary);
- c) Interests or any other incomes that may be generated by the financial investments of the funds transferred by the FMO shall be reported annually to the FMO and shall be taken into account at the closing of the Programmes.

In general, the payments circuit received from the FMO and the respective payments to the PO and the UNG obey the following procedure:

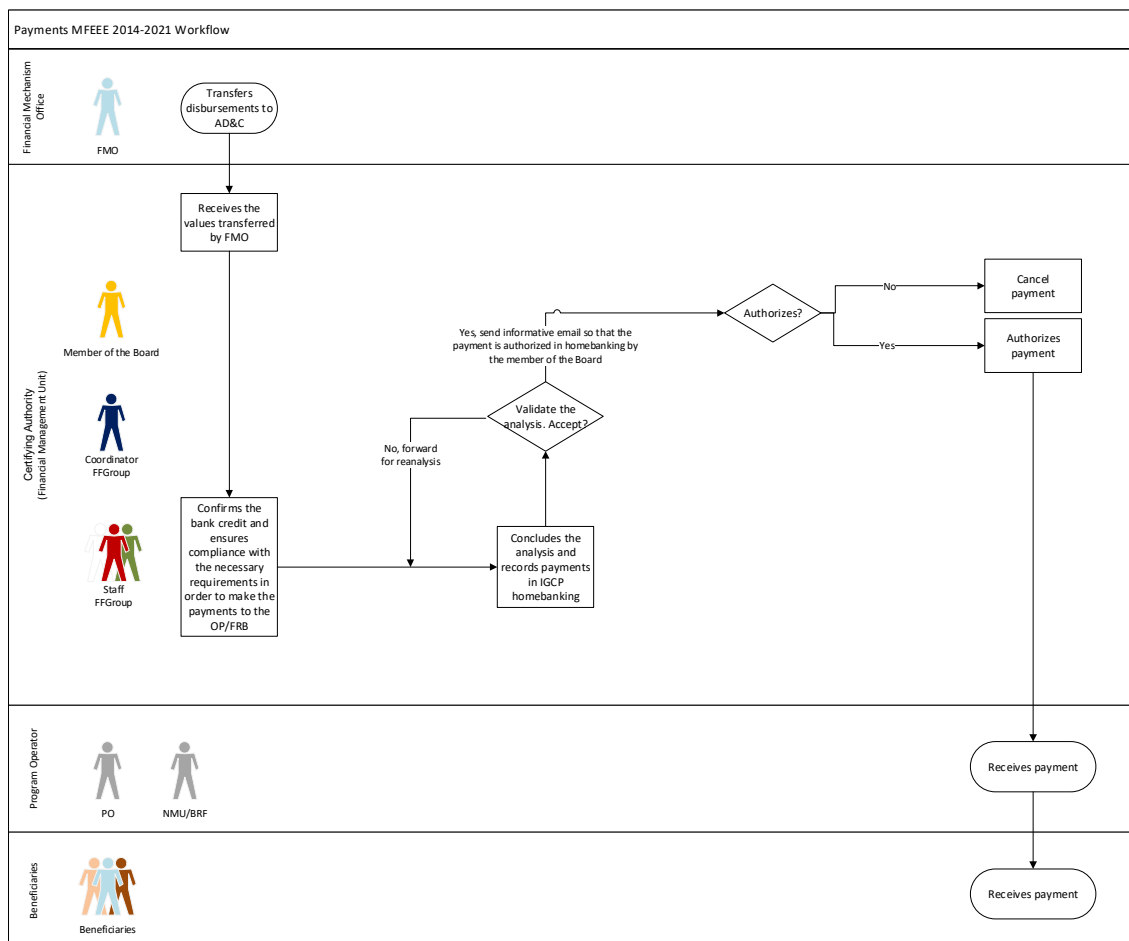


Image 7

The TA and the FBR contributions are credited by the ADC to the UNG bank accounts opened by the SGPCM for this purpose and the UNG has the responsibility to ensure, regarding the FBR, the transfer to the PO or final beneficiaries, confirming that certain conditions are met (e.g. that the tax obligations of the entities that regulate the destination accounts are fulfilled; that no national entities or the FMO have indicated the existence of suspended payments).

2.3. Audit Authority

According to Annex A of the MoU, the Audit Authority for the EEA FM is the General Inspectorate of Finance (IGF).

The IGF is a service of the Ministry of Finance directly incorporated in the State administration – it is directly dependent on the Minister of Finance - whose mission is to ensure the strategic control of the State financial administration, including legality control and financial and management auditing, as well as the assessment of services and bodies, activities and Programmes, and also to provide specialized technical support to that Ministry.

Its intervention covers all entities of the administrative and business public sector, as well as the private and cooperative sectors, in this case, when they are subject to financial or tax relations with the State or the European Union or when it proves indispensable to the indirect control of any entities covered by its action.

The organization chart for the IGF² mission areas is as follows:

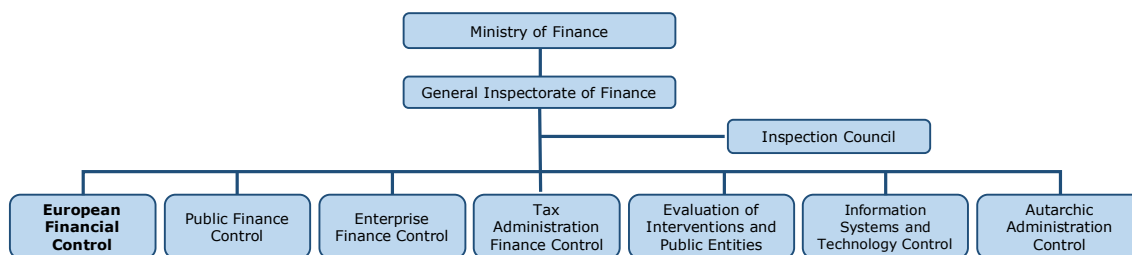


Image 8

As shown in the diagram, the IGF structure includes an advisory body - Inspection Board (IC) - and seven competence centers are part of the framework. The responsibilities of the Audit Authority are committed to the European Financial Control Competency Center.

The exercise of the functions defined for the Audit Authority cannot be delegated.

² Does not include support areas

The Regulation establishes in Article 5.5 the following responsibilities for the Audit Authority:

- a) Ensure that the audits are carried out in order to verify, at the level of the Beneficiary State, the correct functioning of the management and control systems;
- b) Ensure that at least one audit is carried out for each Programme in order to verify the effective operation of its management and control system;
- c) Ensure that project audits are carried out based on an appropriate sample to verify the declared expenditure;
- d) Prepare and submit, to the *Financial Mechanism Committee* (FMC), an audit strategy within 9 months after the approval of the last Programme;
- e) By February 15th of each year during the period from 2019 to 2025:
 - i) Submit an annual report to the FMC indicating the results of the audits carried out during the previous 12-month period, ending on December 31st of each year, in accordance with the audit strategy of the Programme, and provide information on any problems encountered in the management and control systems;
 - ii) Issue an annual opinion, based on the audits carried out under its responsibility, on whether management and control systems function effectively, in order to provide reasonable assurance that the statements of expenditure submitted to the FMC are correct and, consequently, the underlying transactions are in order in terms of legality and regularity;
- f) Submit to the FMC, no later than December 31st, 2025, a closure statement assessing the legality and regularity of the payment request of the final balance indicated in the final report of the Programme.

The audits on projects will be carried out by the Segregated Audit Structure of the ADC³, under the supervision and quality control of the Audit Authority. As evidenced in section 2.2, ADC's internal organization safeguards the principle of the separation of functions, in line with good management practices. This way, the control and audit functions rely on the Chairman of the Board of Directors, the certification function and the payment function rely on different members of the Board of Directors.

According to the provisions of Annex A of the MoU, the IGF also assumes the role of the Irregularities Authority.

3. Procedures for expenditure analysis by the Certifying Unit

The procedures established by the Certifying Authority for analysis and submission of the IFR and FPR to the FMC will be fully detailed in the Manual of Procedures of the Certifying Authority, still under development. Nevertheless, it is considered relevant to highlight below the following aspects regarding the analysis carried out by the Certifying Authority to the information provided by the PO and the UNG (in the case of the TA and the FBR) through the IFRs and FPR prior to the submission to the FMO.

The presentation of the IFR and FPR to the FMO by the Certifying Authority is based upon, namely:

- a) the IFR proposals and their supporting documentation.

As the IFR and FPR includes aggregated financial information that is not sufficient to give an adequate audit trail, the CA defined specific models to be used by the PO and UNG (for TA and the FBR) to report additional and detailed financial information in each report. Those specific models, in a excel basis, includes: Projects summary list (amounts approved, executed and paid) and management costs (**Mod. ADC A**), Payments list for each project in the reporting period (**Mod.**

³ Competence attributed by paragraph (a) of article no. 11 of the Statutes of the Cohesion and Development Agency P.I., published in Administrative Rule no. 351/2013 of December 4th.

ADC B), List of expenditures validated by the PO and the UNG (**Mod. ADC C**) and List of Expenditure directly incurred by the PO and the UNG (**Mod. ADC D**).

The Projects summary list (amounts approved, executed and paid) and management costs (**Mod. ADC A**), will allow the CA to have a financial monitoring system for each project and for the Programme in the way that includes the three financials strands: approval amounts, the incurred expenditure by the projects and the amounts paid by the PO to the projects. Also includes information about the management costs of each Programme and for the TA and FBR.

According to Article 8.1 of the Regulation, the eligible expenditure corresponds to the managing costs the PO and the payments made by the PO to the projects. In the case of the TA and the FBR, the eligible expenditure to be declared in the IFR/FPR will correspond to the expenditure incurred and paid by the SGPCM and ordered by the UNG, whether it is expenditure directly incurred by the UNG or expenditure incurred by the beneficiaries of the FBR. By the specific model Payments list for each project in the reporting period (**Mod. ADC B**) the PO and the UNG will report individual information about each payment to the projects and FBR bilateral activities. This report is essential to reconcile the information declared in the IFR and FPR and will be the basis to determine the following detailed analysis to confirm if the expenditure reported in the IFR and FPR is in conformity with the existing supporting documents, if is based on verifiable accounting records, if sufficient audit trails exists and if the co-financing has been paid, if applicable.

Based on this list, the CA will request to PO and UNG the appropriate documentation, e.g. bank transfers, project contracts, in order to check and confirm the regularity and correctness of the eligible amounts reported, including the national co-financing payment, allowing to reconcile the reported amounts to the evidences provided and to confirm the legality and regularity of the reported eligible expenditure.

The list of expenditures validated by the PO and UNG (**Mod. ADC C**) will allow the CA to the have information about the management costs, the TA and the FBR

bilateral activities and the expenditure realized in each project justifying the paid amounts.

This information is essential for the monitoring of the payments already done and to be done and will be the basis for the following detailed analysis to confirm if an sufficient audit trails exists, if the procedures and verifications intensity adopted by the PO and UNG for the expenditure analysis are sufficient for the CA to have assurance concerning the correctness, the legality and the regularity of the eligible expenditure in the project, in the management costs and in the TA and FBR bilateral activities.

Through the List of Expenditure incurred directly by the PO and the NFP (**Mod. ADC D**) the CA will receive detailed financial information about the expenditure directly incurred by the PO and UNG as TA or as FBR.

Based on this list the CA will request, in a systematic basis and based on a sample, supporting documentation (e.g. invoices, bank transfers) in order to check and confirm the correctness of the reported amounts and in order to reconcile the reported amounts to the evidences provided and to confirm the legality and regularity of the reported eligible expenditure.

- b) the information that allows to confirm the existence of appropriate management verifications.
- c) In the list of expenditures validated by the PO and UNG (**Mod. ADC C**), the PO and UNG must identify the intensity and coverage of the verifications and if there was non-eligible expenditure in result of the analysis. The CA will determine a random sample from this list and request the check-lists and supporting documentation(e.g. receipted invoices, or alternatively by accounting documents of equivalent probative value, bank transfers) from the analysis in order to confirm: if the procedures adopted for the management verifications are in conformity with the management and control systems description, namely if the PO and UNG confirm that the proof of expenditure exists and is regular and legal, the public procurement has been analyzed, the existing information in the EEAFM 2014-2021 information system about the Programmes and respective

projects, as well as on the TA and the FBR, necessary for the exercise of the functions of the Certifying Authority;

For the IFR and FPR analysis, the CA will collect information from the FMO IT System in order to conciliate the existing financial information, to check if the Programmes annual report has been submitted and to check if there are any financial changes with impact in the Programmes.

The CA will organize an internal excel based system that allows the accounting and financial monitoring for each project and for each Programme, including for the expenditure incurred directly by the PO and by the UNG.

- d) the information provided by the UNG, the PO and the Irregularities Authority, as to the existence of irregular expenses identified by the audits and the controls carried out by the different entities, including the on-the-spot (of the PO responsibility) verifications and the complaints or claims, as well as the treatment given by the PO and by the UNG to the results of those audits and controls, covering information on deficiencies and/or irregularities detected and their monitoring in the context of the management verifications.

Taking into consideration the provisions of Article 5.6.1 of the Regulation, it is the PO and UNG responsibility to create and ensure the operation of an adequate and reliable verification and validation system for expenses and to ensure that the Certifying Authority receives all the necessary information about the procedures and verifications in relation to the expenses that require certification.

In this context, the PO and the UNG, when submitting the IFR/FPR, will ensure that:

- a) the expenditure declared corresponds to the operations approved in accordance with the applicable and approved criteria under the Programme and with the applicable legislation;
- b) the expenditure relating to management costs, to the TA and those incurred by the UNG under the FBR, is justified by paid invoices or other accounting documents of equivalent probative value, which occurred within the eligibility period established for the operation. In the case of projects, approved under the

Programmes or the FBR, the declared expenditure corresponds to the payments made to the respective beneficiaries, including the co-financing of the Programme;

- c) the declared expenditure is in accordance with the eligibility rules and the national and European rules on public procurement, state aids, environment, financial instruments, sustainable development, advertisement, equal opportunities and non-discrimination and conflict of interest;
- d) the expenditure declared on the flat-rate option or the standard unit cost tables meet the payment conditions;
- e) the co-financed products and services were effectively supplied/provided;
- f) the beneficiaries involved in carrying out the reimbursed operations, based on the eligible costs actually incurred, use a separate accounting system or the appropriate accounting codification for all transactions related to the operation;
- g) the expenditure has not been financed by other European or national schemes or in other programming periods;
- h) the expenditure related to irregularities was properly dealt with, thus not integrating the payment request;
- i) there is an adequate audit trail.

Taking into account that the information provided by the PO and the UNG to the Certifying Authority through the IFR and FPR is limited, it is necessary for the PO and the UNG to provide complementary information and support that enables the Certifying Authority to have sufficient and sustained elements. The templates and specific conditions for the PO and the UNG to provide information to the Certifying Authority will include, namely: Projects summary list (amounts approved, executed and paid) and management costs (**Mod. ADC A**), Payments list for each project in the reporting period (**Mod. ADC B**), List of expenditures validated by the PO (**Mod. ADC C**) and List of Expenditure directly incurred by the PO and the NFP (**Mod. ADC D**).

Regarding the conditions and deadlines to which the IFRs should be submitted, it is important to highlight the following:

- a) The 1st IFR of each Programme will only be sent to the FMO after the National Focal Point approval of the description of the management and control system, in accordance with the provisions of Article 5.7.2 of the Regulation;
- b) The IFRs should be sent to the FMO on the dates provided in Article 9.3 of the Regulation, in other words, until March 15th and until September 15th of each year, reporting the eligible expenditure incurred by the Programme in the reporting periods from July 1st to December 31st and from January 1st to June 30th, respectively;
- c) The PO and the UNG must submit to the ADC the IFR proposals accompanied by their supporting documentation, by February 15th and by August 15th.
- d) No interim payments can be made to a Programme whose annual report (*Annual Programme Report*) has not been sent to the FMO, pursuant to Article 6.11 of the Regulation.

When examining the 1st IFR submitted by the PO, the Certifying Authority should verify that, for the respective Programme, the National Focal Point has approved the description of the management and control system and whether it is accompanied by a report and an opinion of compliance, issued by the Audit Authority, pursuant to Article 5.7.3. of the Regulation.

The Certifying Authority will only pursue the certification request of the expenditure if the opinion of the Audit Authority contains sufficient guarantees on the compliance of the management and control system of the PO. If there are reservations that may have an impact on the expenditure to be certified and which may be clearly circumscribed to part of the expenditure, the Certifying Authority shall only certify the expenditure for that part of the Programme for which there is reasonable assurance as to the regularity and legality of the expenses declared.

If the opinion of the Audit Authority is negative, until the identified constraints are overcome and regularized, no certification process for this Programme will continue.

If during the execution of the Programme it is concluded that the procedures or entities no longer meet the criteria for the internal control context, risk management, management and control activities, the Certifying Authority will consider, depending on the severity of the identified problem, to suspend the certification of expenditure until the situations in question are mitigated and overcome.

In order to certify that the IFR/FPR come from reliable accounting systems, are based on verifiable supporting documents and that these documents have been verified by the PO and the UNG in the case of the TA and the FBR and that they reflect the results of all audits carried out on the Programme, the Certifying Authority, prior to the submission of the IFR/FPR to the FMC, will carry out a set of verifications and validations on the IFRs and its supporting and detailed information submitted by the PO.

These verifications and validations relate essentially to the formal, financial and technical aspects of the information provided by the PO and the UNG in the IFR/FPR under analysis, and regarding previous IFRs, as well as on the results of all audits/verifications carried out on the Programme, and aim to assess whether the IFR submitted by the PO and the UNG:

- a) is accompanied by all the information necessary for its analysis and the information provided is consistent;
- b) is based on reliable accounting systems, is based on verifiable supporting documents and whether the documents have been verified;
- c) reflects the results of all audits carried out, including audits carried out by the Audit Authority or under its responsibility, namely those with a financial impact through deduction/reversal from its irregular expenses.

For this, and as the basis for the proper performance of this function, the Certifying Authority takes into account, namely:

- a) the description of the management and control system of each Programme and its supporting documents (e.g. procedures guides, guidelines), which includes a description of the functions and procedures to be followed by the PO in the performance of its duties (the PO must guarantee that this is always up-to-date);
- b) the report and opinion of the Audit Authority on the Description of the Management and Control System;
- c) the control report and the audit opinion produced pursuant to Article 5.5 of the Regulation, introducing the main conclusions of the audits carried out on the correct functioning of the management and control systems of the Programmes, including the deficiencies found on the systems;
- d) the results of all audits and controls carried out and their follow-up, namely:
 - a. the audits carried out by the FMO;
 - b. the audits carried out by the Audit Authority or carried out under its responsibility;
 - c. the verifications carried out by the PO pursuant to Article 5.6.2 of the Regulation;
- e) the confirmation of the presentation to the FMO of the annual reports (*Annual Programme Agreement*);
- f) the information provided by the PO and the UNG on the presentation of the IFR/FPR to the Certifying Authority, including the information about the verifications.

Schematically, in the analysis, validation and submission to the FMC of an IFR/FPR the following actors intervene:

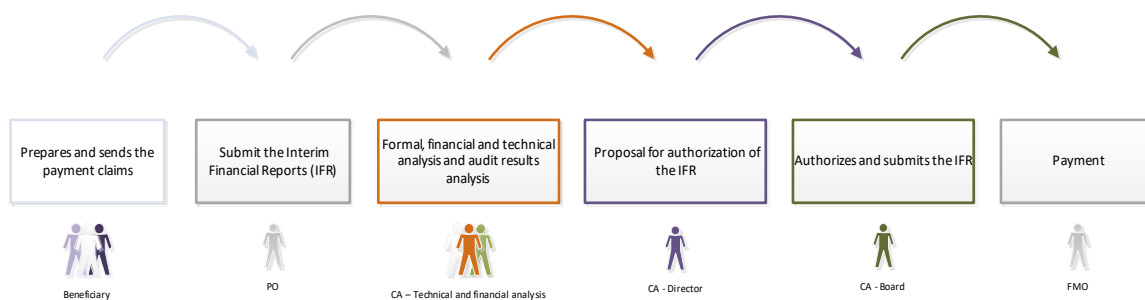


Image 9

The analysis and validation of the IFR/FPR presented by the PO and the UNG and the subsequent presentation of the IFR/FPR to the FMC by the Certifying Authority will then be carried out according to the following circuit and procedures:

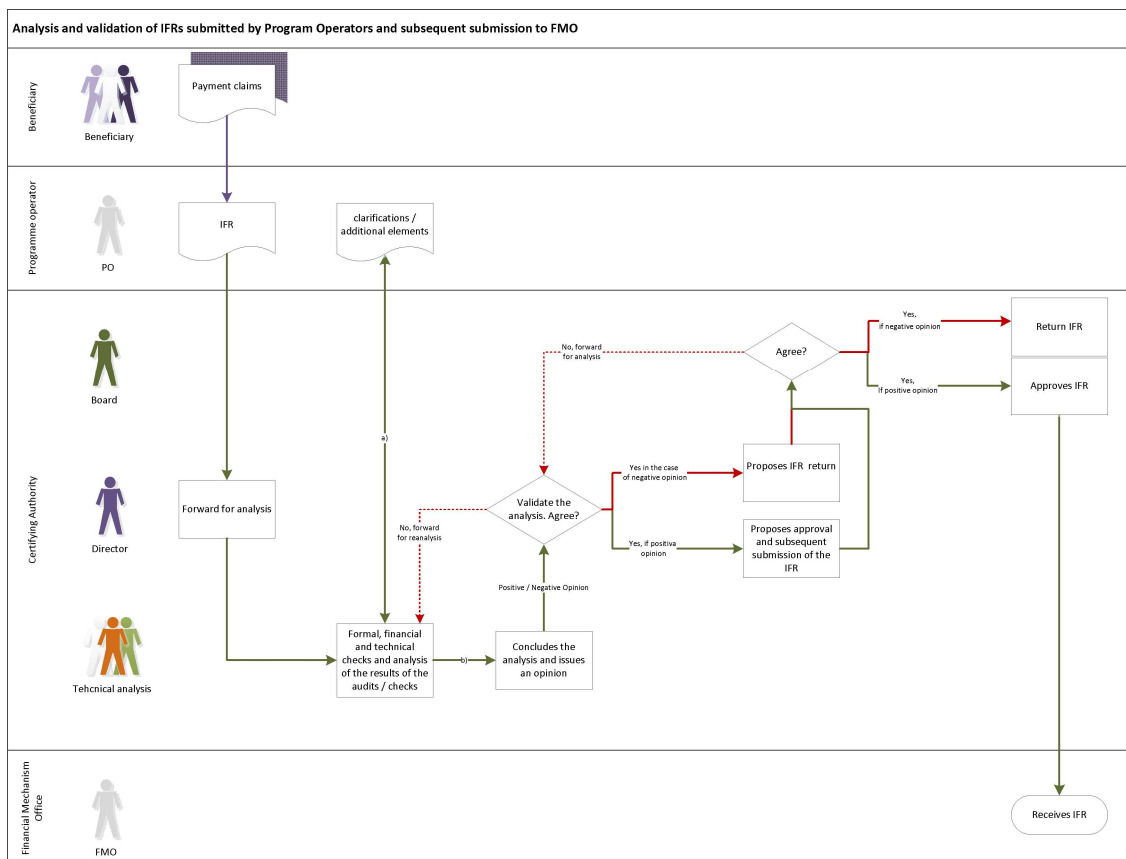


Image 10

The verifications carried out by the Certifying Authority, prior to the submission to the FMC of each IFR sent by the PO/UNG, include:

3.1. Formal, financial and technical verifications

These verifications will focus, namely, on:

- the compliance with the specific templates and conditions established by the Certifying Authority for the submission of the IFR/FPR;

- b) the consistency of the information sent in the IFR/FPR;
- c) the confirmation of the submission of the annual report about the execution of the Programme;
- d) the confirmation that the expenditure related to the Financial Instruments is in accordance with the established rules;
- e) in case of flat rate or standardized unit cost tables, the confirmation that the expenditure declared complies with the established rules;
- f) the confirmation of the regularity of the declared payments, based on a random sample of at least 20% of the total amount of the payments to projects/activities declared in the reporting period in analysis;
- g) the confirmation of the regularity and legality of the expenditure incurred directly by the PO, and by the NFP as TA and FBR, by requesting adequate supporting documents (e.g. invoices, bank transfers, ...) in a systematic way (i.e. every IFR and FPR), based on a random sample of at least 25% of the total incurred expenditure reported in the period of analysis.
- h) the confirmation of the administrative verifications carried out by the PO and UNG to the beneficiary's payments requests, based on a random sample of not less than 10% of the total expenditure of the reimbursement applications validated in the reporting period, of the administrative verifications carried out by the PO and UNG on the expenditure declared by the beneficiaries.

By 15 February and 15 July of each year, the PO has to submit to the CA, by email, the IFR or FPR copy extracted from the FMO IT System and the supporting documents defined by the CA to detailed the IFR or FPR information.

The CA will check the consistency between the information of the supporting documents with the IFR/FPR data and will verify the correctness of the information in the supporting documents, namely if the calculations are correct, if all the formal requirements are fulfilled. The supporting documents will identify if the payment claims from the beneficiary have been analyzed by the PO and in which intensity (sampling or

exhaustive) accordingly with the procedure defined in the management and control systems of each Programme.

The CA will analyze the consistency with the financial information declared for the actual IFR or FPR with the information from previous IFR and from the forecast of likely payments declared. Also the limits approved in each budget heading will be confirmed.

In the list of payments to the projects declared in the actual reporting period the CA will confirm the consistency of the payments with the dates and amounts approved for the project and if these payments reconcile with the eligible expenditure declare in the IFR or FPR.

From the list of payments to each project the CA will get a random sample that includes a minimum of 20% of the total payments (including advance payments and reimbursement payments) declared in the actual IFR/FPR and will request the correspondent payments documents and will confirm the regularity and the veracity of the information reported including the payment of the co-financing from the Programmes.

From the list of expenditures, the CA will get a random sample that includes a minimum of 10% of the total expenditure of the reimbursement applications validated by the PO in the reporting period. The CA will request the expenditure declaration from the beneficiary, including the list of each incurred and paid transactions, and the documentation from the analysis promoted by the PO. The CA will confirm the regularity of the analysis realized by the PO and if the procedures adopted in that analysis give enough assurance that the expenditure is regular, correct, legal and eligible under the EEA Grants Regulation and the national legislation.

For the management costs of the Programmes and for the TA and FRB, the procedures will be similar: the CA will get a random sample of a minimum of 10% of the expenditure reported in the IFR/FPR and will request additional and detailed information and documentation in order to get assurance that the procedures adopted for the verification are sufficient and adequate.

3.2. Assessment of results from Audits/Control carried out on the Programme

These verifications shall cover, namely, the following aspects:

- a) the results of the report and opinion of the Audit Authority on the description of the management and control systems;
- b) the results of all audits carried out by or on behalf of the Audit Authority;
- c) the results of audits carried out by other national or international control bodies, such as the National Court of Auditors, the FMO, the EFTA Board of Auditors;
- d) the results of the management verifications carried out by the PO.

As described in the Irregularities chapter, the UNG will send to the Certifying Authority, in a quarterly basis, the consolidated map of the irregularities, that identifies all the irregular amounts from all the audits and verifications described above.

In the IFR/FPR analysis process the CA will take in account the information from the Irregularities List and will confirm if the irregular amounts are deducted from the declared expenditure and if the unduly paid amounts are recovered.

For that purpose, the CA will check the list of payments request validated by the POs (**Mod. ADC C**) to identify if the deduction of the irregular amounts (negative requests) are objectively deducted with a negative request. If the payments request list does not identify the deduction in a directly manner the CA will request the POs the financial demonstration of the irregular amount deduction v.g. if the list of transactions that supports the payment claim includes the deduction.

To confirm if the unduly paid amounts are recovered, the CA will check if the Payments list for each project in the reporting period (**Mod. ADC B**) identifies the recovery of those amounts through a negative payment (devolution of the amount). If the recovery is done by compensation between payments claims, the CA will check if the amount paid is reduced in the irregular amount.

If the CA analysis concluded that the irregular amounts have been included in previous IFR and are not deducted in the actual IFR/FPR, the CA will consider preventive measures that could include the withdrawn of the irregular amounts from the actual IFR/FPR.

Also in this context, and in particular with regard to the open recommendations whose possible financial impact is not quantified, the CA will analyze these situations in detail and consider the eventual adoption of preventive measures, by withdrawing the corresponding expenditure for the certification purposes.

The CA will take in account the results of the report and opinion of the Audit Authority and audits and the results of the management verifications carried out by the PO, evaluating the impact in the certification process of any recommendation or insufficiency identified.

3.3. Complementary verifications to be carried out by the Certifying Authority

The complementary verifications aim to ensure that the expenditure declared by the PO and by the UNG in specific matters considered to involve some kind of risk and may relate to areas such as:

- a) Financial instruments;
- b) State aid;
- c) Public Procurement;
- d) Support duplication.

As a complement to the verifications carried out prior to the submission to the FMC of each IFR/FPR may, if appropriate, be triggered by the Certifying Authority verifications on specific matters identified as a risk. These verifications will be prioritized based on the results of the analysis carried out on the IFRs and on any eventual deficiencies identified during the audits/verifications about these subjects. In this context, and based on the assessment of each case, it will be established a set of specific procedures which may include the creation of a check-list guided to verify the subject in question, as well

as the definition of the methodology to be applied. The results of these verifications shall be taken into account and weighted in the framework of the IFR/FPR analysis.

Whenever, as a result of the verifications described above - whether formal, financial or technical or as a result of the audits/verifications carried out on the Programme - there are doubts, the Certifying Authority will request the necessary clarification to the PO.

In result of any nonconformities that may be detected, the Certifying Authority shall either return the IFR/FPR or consider the impact of the nonconformities on the expenditure to be reported to the FMC and take the precautionary measures that may be deemed necessary. It should be emphasized that any preventive measure will be duly justified, and the expenses will be clearly identified in order to maintain an adequate control.

The procedures to be adopted for the analysis and submission of the IFR/FPR related to the FBR and the TA will follow the same procedures described above.

4. Monitoring and reporting system

According to the provisions of Article 5.3 of the Regulation, the UNG, as the National Focal Point, has overall responsibility for ensuring that the Programmes contribute to the fulfillment of the objectives of the EEAFM 2014-2021 in Portugal, as well as ensuring its implementation in accordance with the principles of implementation set out in Article 1.3 of the Regulation.

For this, the UNG should, namely, monitor the progress and quality of the implementation of the Programmes, in relation to the indicators established for the contracted outcomes and outputs and for the financial conditions approved, and to assess the risk of the Programmes in relation to the fulfillment of the respective objectives, with the exception of the Fund for the NGO operated directly by the FMO.

The UNG in accordance of Article 2.6 of the Regulation, submit to the FMC an annual Strategic Report on the implementation of the EEA Financial Mechanism 2014-2021, following the template shared by the FMC. The results of the Programmes monitoring

are reported in the Annual Strategic Report and support the work of the Annual Meetings with the FMC, pursuant to Article 2.7 of the Regulation.

The Programmes regular monitoring by the UNG includes the following dimensions: compliance, results and risk-based monitoring.

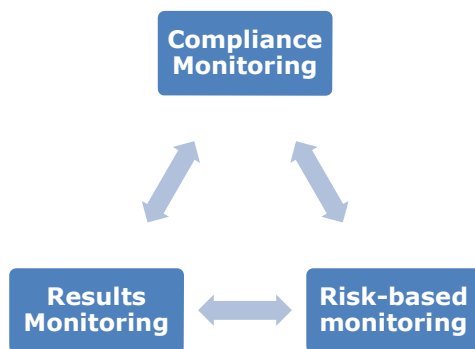


Image 11

- a) **Compliance Monitoring** through administrative control and reviews of compliance with the legal framework of the EEA FM 2014-2021;
- b) **Results Monitoring** of the progress and quality of the implementation of the Programmes, including the information and communication responsibilities of the PO;
- c) **Risk-based monitoring** following a risk assessment of Programmes focusing on those that register higher risk, which could involve extra monitoring actions.

Without prejudice to others, regular and continuous monitoring by the UNG is developed through the following actions, with the respective evidences:

- **Biannual reports** of the PO - electronic communication in template provided;
- **Regular control meetings**, at least with a biannual periodicity, with the PO – the UNG defines the agenda, the minute and the attendance list must be signed by the participants;
- **Consolidation of the information** on controls, audits and complaints;

- **Follow-up**, as an observer, of the meetings of the Cooperation Committees between the PO and their respective *Donor Programme Partners* (DPP) and of the selection procedures by the PO - agenda and minute defined by the PO and attendance lists signed by the participants;

- **Prior validations** before submitting to the FMC/FMO the documents owed by the PO, pursuant to the Regulation, inter alia, provisional approval of proposals to amend the *Programme Agreement* (Article 6.9.3), approval of management and control systems for the PO (Article 5.7.2), positive appraisal of the Pre-defined Projects (Article 6.5.3), etc. - electronic communications between the UNG/PO/FMO;

-Review of the Annual and Final Programme Reports – submitted by PO in the Information System.

After the signature of all Programme Agreements the UNG shall submit an evaluation plan with the first Strategic Report for the evaluation of all programmes pursuant to article 10.1.1. of the Regulation. The monitoring results will support and guide the evaluations to be carried out.

4.1. Biannual reports

Pursuant to Article 6.8 of the Regulation, the financing contract with each PO (*Programme Implementation Agreement*) should provide the reporting obligations to the National Focal Point, among others.

The biannual reports are filled by the PO with relevant data to evaluate the progress, results and risks of the Programme and will be based on the monitoring and verifications product of the projects by the PO.

The biannual reporting template (**Mod. UNG A**) will be developed by the UNG before contracting the *Programme Implementation Agreement* and will have as minimum requirements:

a) Progress report

1. of the financial execution of the Programme (payments by the PO);

2. of the selection procedures and the contracting of the funding by the PO;
 3. of the scope of the defined indicators;
- b) risk assessment by the PO, in accordance with the methodology outlined in the Results Guideline;
- c) fulfillment of the communication obligations.

The biannual reports will be submitted by the PO to the UNG until March 15th and September 15th of each year.

4.2. Control meetings

The regular monitoring meetings will include verifications using a **check-list for the Programme Operators obligations** arising from the legal framework and contracts of the EEAFM 2014-2021 (**Mod. UNG B**) to be developed by the UNG prior to the contracting of the *Programme Implementation Agreement*.

4.3. Consolidation of information

In order to fulfill its mission of monitoring and risk assessment, the UNG will consolidate all the information about controls, audits and complaints on its registration map (**UNG Mod. C**), including the irregularities detected and the respective regularizations disclosure by the relevant entities and whenever requested.

5. Procedures for audits and respective reports

5.1. Procedures for the assessment of the Management and Control Systems

Pursuant to Annex A of the MoU, the Audit Authority for the EEAFM is IGF, which is responsible for all the functions listed in Article 5.5 of the Regulation. It is responsible, among other actions, for ensuring that audits are carried out to verify the correct

functioning of the EEAFM management and control systems, as well as to carry out project audits to verify the regularity and legality of the declared expenditure, the latter to be performed by the ADC Segregated Audit Structure as described below in section 5.2.

The audits are carried out according to the audit strategy which can be submitted to the FMC, in line with the Regulation.

According to Article 5.5.3 of the Regulation, the IGF shall ensure the conformity of the audit work with internationally accepted standards. In this context, supported by the "Audit References and Standards of the General Inspectorate of Finance", the standards issued by the IFAC and the INTOSAI will be considered in the execution of the audits.

a) Assessment of the descriptions of the management and control systems

The verifications for the compliance assessment of the descriptions of the management and control systems shall be carried out by the IGF taking into account the applicable references⁴, the Regulation and the generally accepted accounting principles, and shall be supported by a check-list developed for this purpose.

The assessment audit of the descriptions of the management and control systems will involve, in addition to the analysis of documentation supporting the description, interviews with those in charge of the management and control systems.

In this context, in the absence of specific rules at the level of the EEAFM, with the due adaptations, it will be evaluated the conformity of the description with the key requirements defined in the applicable regulations to the ESIF, namely those specified in Annex XIII of the Regulation (EU) no. 1303/2013, from the European Parliament and Council, of December 17th, such as:

- a) Appropriate separation of functions and adequate reporting and monitoring systems;
- b) Proper selection of the operations;

⁴ By analogy the Guidelines for the Member States on the Designation Procedure (EGESIF_14-0013-end of 18/12/2014).

- c) Adequate information for the beneficiaries;
- d) Adequate management verifications;
- e) Effective filing system of all the documents related to the expenditure and to audits to ensure an adequate audit trail;
- f) Reliable system for the collection, recording and storage of monitoring, assessment, financial management, verification and audit data;

b) Audits to the management and control systems

After the completion of the assessment of the management and control system descriptions, audits will be carried out, in each PO, which aim to assess whether the management and control procedures described are effectively carried out and work efficiently over the whole period.

These audits will be predominantly carried out by the Audit Authority's own resources. However, if necessary, this task may be assigned to external auditors, to which the Audit Authority ensures the indication of a certified and independent auditor, as well as the conformity of the work with internationally accepted auditing standards and with the applicable regulatory framework.

The verifications related to the audit of the management and control systems shall be supported by a specific check-list, which shall be an update of the check-list adopted for assessing the descriptions of the management and control systems, although it is focused on confirming the implementation of the predicted procedures.

This work instrument supports the assessment of the control risk and, consequently, the identification of the mitigation procedures to be carried out.

These audits involve the carrying out of control course tests, which will focus on attributes and projects identified based on non-statistical sampling methodologies⁵, i.e., based on professional judgment and experience.

⁵ Namely those identified in the *Guidance on sampling methods for audit authorities* issued by the European Commission.

In the event of significant changes in the management and control systems, or only in one of its components, a new audit may be justified throughout the programming period.

As a result of these audits, it will be carried out a quantitative assessment of the functioning of the management and control systems of each PO. For this purpose, it will be adopted, with the necessary adaptations, the methodology provided for in the Guidelines for the Commission and the Member States on a common methodology for the assessment of management and control systems in the Member States (GESIF 14-0010, of 18/12/2014).

The audits to the management and control systems include, to the same extent, the UNG that acts as an operator entity of the FBR and the TA.

The audits of the management and control systems also include the verification of the procedures described in the present description regarding the UNG in its role as a National Focal Point, namely the verification of the procedures for monitoring the Programmes and for the preparation and presentation of the *Annual Strategic Report* to the FMC.

In the audits to the management and control systems of the ADC as a Certifying Authority, the verifications will focus on the:

- a) Appropriate separation of functions and reporting and monitoring systems;
- b) Appropriate procedures for the preparation and submission of the IFRs;
- c) Procedures to ensure an adequate audit trail and filing system;
- d) Procedures to gather the necessary information to certify the expenditure to the FMC.

5.2. Audits on projects

The audits on projects to be performed by the Segregated Audit Structure of the ADC⁶ will be developed in order to verify that:

- a) The operation meets the selection criteria defined for the Programme;
- b) The operation was carried out in accordance with the approval decision and complies with all the applicable conditions regarding its implementation and with the defined objectives;
- c) The operation is implemented and the ownership of the assets/activities subject to financing is maintained;
- d) The expenditure declared by the beneficiaries is in accordance with the national and European rules, including State aid, information and publicity, sustainability, public procurement, equal opportunities and environmental protection;
- e) The public contribution has been paid to the beneficiary without any undue reductions or delays and complies with the limits laid down in the applicable national and European legislation;
- f) The national co-financing has been made available;
- g) The declared expenditure is disclosed in the accounting records and supporting documents held by the beneficiary.

The audits on projects will be carried out by the Segregated Audit Structure of the ADC⁷, under the supervision and quality control of the Audit Authority. However, if it proves necessary, they may be carried out by external auditors, always ensuring their technical competence, as well as their conformity with internationally accepted auditing standards. Such conditions will be ensured either through the specifications contained in the tendering documents for the appointment of auditors or through the application of rigorous criteria in the evaluation of applications.

⁶ Competence attributed by paragraph (a) of article no. 11 of the Statutes of the Cohesion and Development Agency P.I., published in Administrative Rule no. 351/2013 of December 4th.

⁷ The Segregated Audit Structure is a department totally independent of the CA, as in the previously programming period. That Structure is also responsible for all the audits on projects of the European Structural and Investment Funds.

The Segregated Audit Structure of the ADC integrates resources with competencies, valences and experiences appropriate to the performance of project audits, while ensuring compliance with the following fundamental principles:

- a) Segregation of Functions - The functions of certification and auditing of operations are attributed to two distinct organic units, in this case the Certifying Unit and the Control and Auditing Unit, respectively.
- b) Functional independence - The aforementioned organic units report to different members of the Board of Directors;
- c) Technical independence - The methodologies, the annual audit plans, as well as the definition and selection of the respective samples are proposed by the Control and Audit Unit, but will only be executed after formal approval by the Audit Authority.

The Audit Authority shall supervise and evaluate the quality of the work performed by other auditors. In this context, it will evaluate methodologies, validate samples, as well as scrutinize a sample of audits to verify the procedures adopted and analyze its supporting documentation. When necessary, it shall also carry out verifications to the auditors, including, when appropriate, the monitoring of the performance on the on-site verifications.

All aspects referred to above, namely the supervision and monitoring procedures, shall be duly documented in the audit file.

The audit approach, as well as the methodologies for the audits, including the relation between the audit results and the sampling methods to apply on each exercise will be further developed in the audit strategy – that will cover all the programmes - to be prepared within nine months of the approval of the last programme.

The level of confidence of the management and control systems resulting from system audits and operations audits is determined by the Audit Authority which will determine or approve the parameters to be considered in the sampling process associated with the project audits.

In view of the projectable size of the universe of projects for each Programme, the use of statistical methods for the selection of project samples to be audited in each exercise is not considered due to the lack of operations. Thus, based on criteria supported by professional judgment and experience, it will be ensured that the size of the samples complies with the prevision of the 5.5.4 (minimum coverage of the sample), and will be sufficient to provide reasonable assurance about the reliability of the expenditure declared by the beneficiary and ensure its representativeness in order to enable the Audit Authority to issue a valid opinion according to Article 5.5.1 (e) (ii) of the Regulation.

However, in any case, for the definition of annual project samples to be audited by the Audit Authority, it shall observe the principles and methodologies defined in the *Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020* (EGESIF_16-0014-00 of 20/01/2017), as well as in internationally accepted audit standards.

5.3. Procedures for the preparation of the annual audit reports and opinion

As mentioned previously, it is the Audit Authority responsibility to submit to the FMC an annual audit report indicating the results of the audits carried out during the previous 12-month period ending on December 31st of each year, in accordance with the audit strategy of the Programme, and provide information on any problems encountered in the management and control systems.

The first report to be submitted by February 15th, 2019, will cover the period until December 31st, 2018. The information regarding audits performed after January 1st, 2025, will be included in the final audit report to support the closing statement that will assess the validity of the request for payment of final balance requested in the final report of the Programme.

In addition, the Audit Authority issues an opinion to the FMC, based on the controls and audits carried out under its responsibility, on whether the management and control

systems function effectively, in order to provide a reasonable assurance that the expenses submitted to the FMC are correct and therefore a reasonable assurance that the underlying transactions are legal and regular.

The annual audit report and its opinion shall be submitted in the information system implemented by the FMC.

In this context, it should be mentioned that the Audit Authority will annually carry out a specific audit, that will focus on the Certifying Authority, which aims to complement the audits of the projects, in order to support the opinion to be issued about the legality and regularity of the expenditure presented to the FMC.

This specific audit, considering its characteristics and the deadline to report the corresponding results, should be duly planned throughout the accounting year to which it relates. The procedures that contribute to its objectives will predictably be carried out during this period, with a defined deadline to submit the annual opinion. This is due to the fact that the audit in question is based on the results of all audits completed in the relevant period.

In fact, the size of the work to be carried out will take into account, namely, the result of the system audits, as well as the result of the project audits, and part of the work will be done based in samples.

In compliance with the current IGF standards, namely the *IGF Audit Reporting Guidelines*, the draft report shall be issued in a timely manner, taking into account all audit evidence deemed appropriate, in order to minimize the effect of any significant changes resulting from the comments from the audited.

5.4. Procedures for the audit strategy preparation

The Regulation states in Article 5.5.1 (d) that the Audit Authority should prepare an audit strategy within 9 months after the approval of the last Programme.

The audit strategy, which will be subject to annual review, establishes the audit methodology, the sampling method for project audits and the indicative audit plan to ensure that the audits are distributed evenly over the programming period.

The preparation of the audit strategy shall be carried out by issuing the reports and corresponding audit opinion relating to the descriptions of the control management systems of each PO, in accordance with Article 5.7 numbers 1 to 3 of the Regulation.

In compliance with the international standards, the audit approach to be defined in the strategy will be based on an appropriate risk analysis.

In view of the categorization resulting from this risk analysis and the result of the risk assessment developed by the UNG under Article 5.3 (3) of the Regulation and reflected in the *Annual Strategic Report*, the priorities are established regarding the actions to be taken in response to the identified risk.

6. Irregularities

According to Article 12.2 of the Regulation, an irregularity means an infringement of the legal framework of the EEAFM 2014-2021 as defined in Article 1.5 of the Regulation, as well of any provision of EU law or any provision of the Beneficiary State, which affects or prejudices any stage of the implementation of the EEAFM.

The irregularities can be determined following the intervention of the various entities with responsibilities in the EEAFM or following complaints or claims submitted through the irregularities alert provided for in Article 12.7 of the Regulation.

The designated entities will jointly cooperate in order to make every effort possible to prevent, detect and nullify the effect of any cases of irregularities.

The approval of the descriptions of the management and control systems of the POs by the NFP in accordance with Article 5.7.2 of the Regulation will be dependent on the description of a system for preventing, mitigating, detecting, reporting and remedying of irregularities with sufficient assurance that the procedures in place are appropriate

and effective to prevent, detect, investigate, report and remedy, including making any financial corrections, any cases of suspected or actual irregularities.

Pursuant to Chapter 12 of the Regulation, the responsibility for reporting irregularities to the FMC lies with IGF designated in MoU as the Irregularities Authority.

The results of all the controls and audits carried out to the EEAFM, as well as all the necessary information for the communication and monitoring of the irregularities susceptible of communication, are recorded in the "Controls and Audits Registration Map" (**Mod. UNG C**). The entities responsible for such registration are:

- The PO, for administrative and on-the-spot verifications, management and control systems audits and projects audits that focus on the respective promoters;
- The UNG, regarding the administrative and on-the-spot verifications carried out on the FBR beneficiaries or on the SGPCM under the TA, as well as transversal audits, namely systems audits, including those focused on specific issues developed by the Audit Authority, or of the FMO involving more than one PO.

On a quarterly basis, the PO submits to the UNG the updated map detailing all irregularities, those resulting from the verifications carried out by the PO and those identified in the audits framework they were object of.

This map will be later consolidated by the UNG (**Mod. UNG C**), including:

- a) the results of its verifications on FBR and TA,
- b) the results of transversal audits upon reception of the final report or document that ends the process of reply or comments;
- c) the alleged irregularities resulting from complaints.

The consolidated map is sent to the Irregularities Authority and to the Certifying Authority, with the purpose of reporting irregularities and supporting the analysis of the IFR, respectively.

Except in the situations identified in Article 12.5 of the Regulation where the report is immediate, the process for reporting irregularities is developed quarterly, during the two months following the end of each quarter.

The regulatory deadline for sending communications to the FMC ends on the last day of May, August, November and February, depending on whether it is the 1st, 2nd, 3rd or 4th quarter.

The procedures for reporting and monitoring the irregularities, are the following:

- i. **Until the 20th day of the month following the end of each quarter** - the PO and the UNG record the conclusions and findings resulting from all audits and verifications carried out on projects, identifying the situations that may involve irregularities, including new cases or the update of previous communications (Article 12.2 and 12.5 of the Regulation);
- ii. **Until the last day of the month following the end of each quarter, the designated** entities shall submit to the Irregularities Authority the forms (Annex 9 of the Regulation), as well as all the minimum documentation necessary for their analysis (e.g. excerpt of the report/information that determined the irregularity, proof of recovery, deduction of expenses, justifications that support the annulment of the cases, participation letters to the Public Prosecutor Office); **within the same period** the UNG sends to the Irregularities Authority, with the knowledge of the Certifying Authority, the "Controls and Audits Registration Map" (**Mod. UNG C**) with the consolidated information available;
- iii. Until the end of the second month after each quarter - the Irregularities Authority ensures the submission of the irregularities report to the FMC, via electronic communications (new cases and respective follow-up).

The reporting of irregularities to the FMC is promoted exclusively by the Irregularities Authority, which will keep a record of all irregularities, as foreseen in article 12.4. After each reporting period the IGF provides electronically to the UNG a map with the identification of all reported irregularities.

European Economic Area (EEA) Financial Mechanism 2014-2021

Flowchart of the procedures for the **report of irregularities** detected by National Authorities and FMC

Programme Operators (PO)	National Focal Point (NFP)	Certifying Authority (CA)	Segregated Audit Unit (AD&C)	Audit Authority (IGF)	Irregularities Authority (IGF)	FMC
Management verifications	Monitoring and Complaints	Certification audit reports	Audit operation reports	AA Audit reports		FMC Audits
Create form - new/update own cases (Annex 9)	Create form - new/update own and FMC cases	Create form - new/update own cases	Create form - new/update own cases	Create form - new/update own cases		
Recoveries, judicial, other progress or modifications						
					Reporting forms (Annex 9) ↓ Analysis of the new/update proposals ↓ Input all proposals on quarterly files ↓ Input on cumulative file ↓ Internal Information + Letter to FMC ↓ Final forms and letter ↓ Digital archive ↓ NFP, OP, CA have access ↓ End	EEA Forms (Annex 9)
	Cases reported					

6.1. Complaint Mechanism

- 45 -

specific electronic address (alerta@eeagrants.gov.pt). The text of the information on the website will be available in Portuguese and in English (see **Annex 1**).

The UNG briefly analyzes the complaints received and refers them to the targeted entities for verification, informing the Irregularities Authority.

Complaints involving suspected irregularities are reported by the National Focal Point to the Irregularities Authority on the form used for this purpose (Annex 9 of the Regulation), which will assess the duty to report to the FMC, in accordance with Article 12.5 and Article 12.6 of the Regulation.

The UNG maintains a record of all complaints received through the complaint mechanism and registers (on a consolidated basis) the complaints involving alleged irregularities on the registration map (**Mod. UNG C**).

7. Fund for Bilateral Relations and Technical Assistance

7.1. Fund for Bilateral Relations (FBR)

Each Beneficiary State shall reserve a minimum of 2% of its total allocation to the FBR with the purpose of financing activities aimed at strengthening the bilateral relations between Donor States and the Beneficiary State. As National Focal Point, the UNG is in charge of the management of the FBR.

The UNG prepares a *Work Plan* with the planning of the type of activities and activities to be supported under the FBR that will be validated by the Joint Committee for the Bilateral Funds (JCBF), pursuant to Article 4.2 of the Regulation.

Part of the FBR should be made available to the POs through pre-established allocations set in the MoU to which other allocations decided by the Joint Committee for the Bilateral Funds (JCBF) may be added, based on the evaluation of expressions of interest made by the POs to finance activities organized under the Programmes.

The funds may be distributed through activities of pre-defined bilateral interest or open calls.

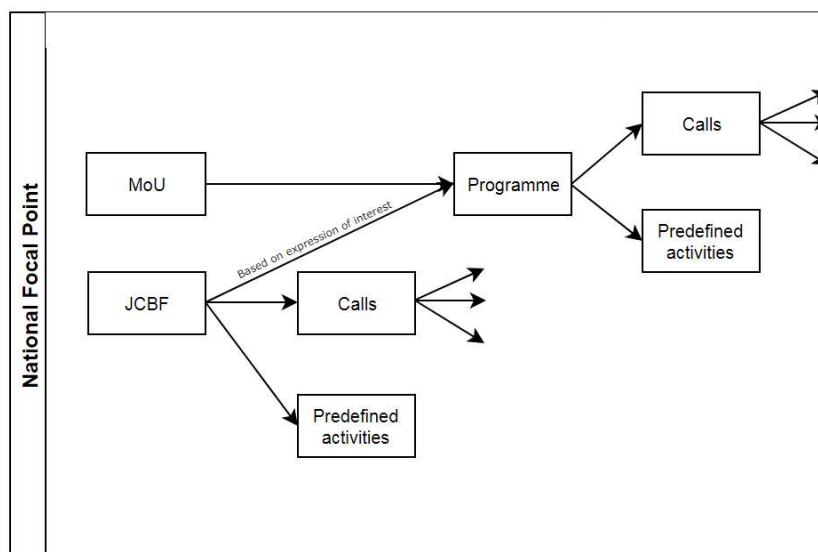


Image 13

Predefined activities are considered the activities that have been previously agreed in the JCBF. The pre-defined activities are subject of a detailed proposal from the respective beneficiary promoter, including an outlined activity plan and a budget for the JCBF opinion.

Open calls promoted by the UNG for support under the FBR must be advertised in the websites of international and national EEA Grants, of the Norway Embassy in Portugal, the Portuguese Embassy in Oslo, the POs and other websites, if the latter are considered relevant for the target audience.

The open call texts, in Portuguese and English, shall identify, namely:

- The priority area of the bilateral relations for the submission of applications;
- The object and purpose of the supports to be granted;
- The total amount available under the **Open Call**;
- The maximum amount of financial support to be granted to each approved activity;
- The co-financing rate to be attributed to the activity;
- The deadline for the submission of proposals;
- The eligible applicants;
- The date of eligibility of the expenditure;
- The nature of the eligible expenditure;

- j) The process of selection and decision-making;
- k) The selection criteria;

Entities from the Beneficiary State and Donor State entities shall be eligible as potential promoters or partners under the FBR.

The applications shall be submitted by filling out the respective template available on eeagrants.gov.pt and submitted by e-mail to a specific address (bilateralrelations@eeagrants.gov.pt).

After the submission of the applications, the UNG will carry out a formal analysis of the applications.

If, following the formal analysis of the applications an essential element is missing, the UNG will notify the entities, within 10 working days, to eliminate the detected deficiency, under penalty of immediate exclusion.

Upon completion of the formal analysis of the application, the UNG will promote the merit assessment taking into account the selection criteria and sub criteria published in the call text and the procedures agreed by the JCBF.

The JCBF will recommend the entities for funding and their allocations and the excluded entities, taking into account the evaluation of the merit carried out and the amounts available.

The entities will be notified by the UNG of the final decision on the application. In the case of the entities whose applications are not approved, they will be given the deadline set in the Code of Administrative Procedure to appeal/express their comments.

The UNG will send to the beneficiaries of the approved applications an Acceptance Agreement for financial support. which shall define, namely: the scope, funding conditions, eligible expenditures, timeline, amount of the financial support and the co-financing rate, the payment method, beneficiaries bank account, the obligations of the beneficiary and the situations of suspension and/or reimbursement of the payment of the financial support in case of non-compliance.

Distribution of Funds for Bilateral Relations

The ADC transfers of the FBR funds will be made to the SGPCM account EEA FM - FBR, opened in the Portuguese Treasury and Debt Management Agency - IGCP, with the following designation:

SGPCM – UMFEEE – IBAN PT 50078101120112001508978

According to the Article 4.6.3 of the Regulation, advance payments of the funds for bilateral relations from the donors to the NFP shall be made upon the signature of the bilateral fund agreement, without prejudice of Article 5.7.5 of the Regulation.

The allocation included in the MoU is not subject to any further approval by the JCBF or NFP, therefore the NFP shall, upon request from the PO, ensure timely disbursement of bilateral funds appropriate to cover the POs needs, not exceeding the MoU allocation.

In case the NFP is prevented from making the above funding available, the FMC can make an advance payment directly to the PO not exceeding € 50.000 as pursuant to Article 4.6.4. This advance payment shall be considered included in the MoU allocation and the request from the PO should follow the Annex 5 template of the bilateral guideline.

Additional allocations from the FBR to POs beyond those made in the MoU shall be based on the expression of interest form submitted by the PO with an outline on the use and intended results from the funds requested and following the assessment by the JCBF. Payments under the additional allocations to POs shall be dependent on a minimum of 70% of reported and validated expenditure by the UNG regarding the previous payments.

FBR payments may take the form of advance payment, interim payment or final balance payment.

All funds transfers shall be preceded by the signature of the beneficiary, including the POs, of the above mentioned Acceptance Agreement.

The funds transfer order from the above identified account to the final beneficiary will be given by the UNG to the SGPCM, which operates the transfer, after the signing and

returning the respective Acceptance Agreement by the beneficiary to the UNG, along with the proof of the regularized situation with the Tax Authority and the Social Security and with the document proving the beneficiary ownership of the IBAN.

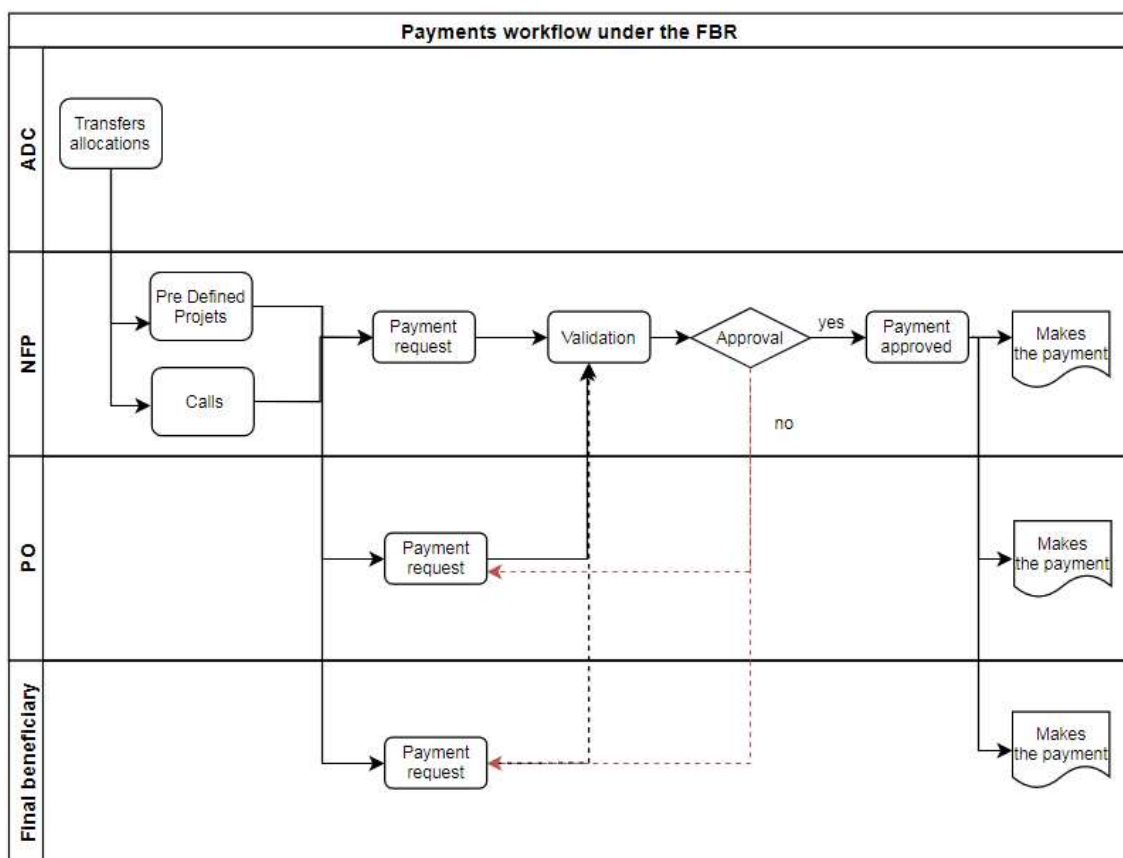


Image 14

Presentation of expenses by the beneficiaries and their validation

All beneficiaries of the supports granted by the FBR at a national level, either through *open calls* or predefined activities or in relation to the allocations attributed to the PO, must submit a payment request, by filling out the **expenditure form (Model UNG - D)**, which will be subject to the UNG validation by filling out the **Payment Request Verification Check-list (Model UNG - E)**.

In the case of the activities directly promoted by the UNG by appointment of JCBF, the expenditure processes will be carried out in articulation with the SGPCM, with the latter being responsible for the administrative procedures according to the applicable legislation, as well as the respective payments. In these cases, the SGPCM will submit

the processes and proof of expenses for case-by-case administrative validation by the UNG.

The **payment verification requests** shall cover the formal, strict, timely and normative eligibility aspects of the expenditure submitted.

The expenditure resulting from **public procurement procedures** will be subject to verification using the normative verification **check-list (Model UNG - F)**.

The **administrative verification** to be carried out by the UNG shall assess the total expenditure submitted by the beneficiaries.

The **on-the-spot verification** by the UNG will focus on a random sample with a minimum incidence of 20% of the total of the effectively validated expenditure.

The **check-list** applicable to on-the-spot verifications will have a specific template (**Model UNG-G**).

The responsibility for verification of expenditure under the FBR lies with the UNG.

If the expenditure incurred directly by the POs as beneficiary, or promoters under the FBR, the verification of incurred expenditure is done by UNG on the proof of expenditure with the supporting documents such as invoices, bank transfers, etc.

Expenditure incurred by beneficiary promoters on a re-granting nature shall be verified by the respective POs according to their own procedures detailed in the description of the management and control system at the PO level. UNG will request to POs the appropriate supporting documentation, e.g. bank transfers, in order to verify the regularity of the payments to the promoters at PO level.

The CA will verify expenditures directly incurred by the UNG under the FBR, according to the description presented in chapter 3.

The POs shall report to the UNG on the use of the FBR allocated to its programme and the UNG shall compile aggregated IFRs and FPR based on input from POs and promoters under the FBR. The IFRs and FPR shall be certified by the CA before the submission to the FMO.

The POs and the beneficiaries shall report to the UNG on initiatives completed under the FBR allocated to the programmes. These reports shall include, beyond the financial information, a detailed description of the initiative, the results achieved and what was the contribution to reach the overall objectives of the EEA Grants.

7.2. Technical Assistance

Regarding the procedures for transferring funds to the UNG to pay the **Technical Assistance** costs, the ADC transfers the funds related to the TA to the account of the SPGCM EEAFM, opened in the Portuguese Treasury and Debt Management Agency - IGCP, with the following designation:

SGPCM – EEAFM – IBAN PT 50078101120112001494331
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In order to ensure the corresponding **audit trail** which, pursuant to Article 9.8 of the Regulation, should allow the reconciliation of the expenditure certified by the Certifying Authority in the corresponding IFRs and in the final report of the Programme with the respective documents proof of the incurred and paid expenditure, the SGPCM files the original documents and all documentation remains available for consultation for a minimum period of 3 years from the date of the FMO approval of the final report of the TA at a national level.

The UNG files and scans, besides the respective IFR and the attachments of the final Technical Assistance report, the following **explanatory and support expenditure documents**, in sequential order of IFRs:

- a) Copy of the service information of the SGPCM regarding the costs of staff assigned to UNG;
- b) Monthly charts prepared by the SGPCM/Human Resources Services Office regarding salaries, allowances and discounts processed to the UNG staff;
- c) Copy of the administrative file related to the possible conclusion of a contract for the provision of services (e.g. contract, prior opinion of the Ministry of Finance, etc.).

TA's available appropriation only covers part of the eligible expenditure under Article 8.11.1, paragraph (a) relating to the UNG staff costs, and paragraph (g) expenditure relating assessments. The remaining eligible expenses under Article 8.11.2 shall be supported through the State Budget funds allocated to the designated entities.

The **expenditure processes** will be duly instructed, complying with the procedure protocol applicable to public expenditure and compliance with the rules of public procurement. The original documents remain in the SGPCM in order to ensure a sturdy audit trail.

In this context, there will be a close coordination/cooperation between the UNG and the SGPCM services, and the administrative procedures for expenditure will be properly filed.

UNG will carry out on-the-spot verifications throughout the implementation period of Financial Mechanism in order to validate the regularity of expenditure and to assure that the procedures adopted are sufficient and adequate, based on a random sample with a minimum incidence of 5% of the budget allocated to Technical Assistance.

The on-the-spot verifications will be carried out in the financial department of the SGPCM where the original documents will be held in a separate file and shall be carried out by the UNG officers.

The activity developed by the UNG for payment by the Payment Authority

The same procedures are adopted for the TA, for the remaining expenses under the EEAFM 2014-2021.

In order to enable the Certifying Authority with the information necessary to monitor the execution of the Technical Assistance budget, as well as to comply with the FMO payment requests reporting, the UNG will send the ADC its respective payments forecast pursuant to and on the dates established in the EEAFM Regulation 2014-2021 and the Annual Report of the TA.

Annex 1

Complaint Mechanism

(Information to be made available at EEA GRANTS national website PT/EN)

The EEA Grants has zero tolerance policy on corruption and mismanagement and its implementation is based on the promotion of good governance and the principles of transparency, accountability and cost efficiency.

Alerts on suspicions of serious deviations from the principles of good governance or irregularities in the implementation of the Financial Mechanism of the European Economic Area 2014-2021 in Portugal may be submitted directly by any person to the follow e-mail, address or phone number:

alerta@eeagrants.gov.pt

National Focal Point – Rua Barata Salgueiro, 37 – 5º 1250-042 Lisboa - Portugal
++351 218 801 175

For the proper treatment of your complaint, enter the subject "**Complaint Mechanism EEAFM 2014-2021**".

Please provide as much detail as possible about the information you have, to ensure proper referral. The elements received will be handled with confidentiality. **You may choose to make anonymous complaints.**

Within 10 business days, you will be given a response on the referral given to the complaint by the National Management Unit that receives the alerts and acts as a National Focal Point.

Please note that the presentation of your complaint under this complaint mechanism does not replace the use of the legal means available to protect any rights.

Alternatively, you may use the contact of other entities involved in the implementation of the EEA Grants, namely the General Inspectorate of Finance, entity designated as Irregularities Authority and as Audit Authority or the Financial Mechanism Office, entity responsible for implementing the EEA Grants on behalf of the Donor States,

General Inspectorate of Finance (IGF)

Irregularities Authority and Audit Authority
Email: igfinancas@igf.min-financas.pt

Financial Mechanism Office (FMO)

Entity responsible for implementing the EEA Grants on behalf of the Donor States
Email: alert-fmo@efta.int

If the complaint entails a suspected or actual irregularity, it will be reported to the FMO by the General Inspectorate of Finance, which acts as the Irregularities Authority.