

**Assistance for  
the implementation of performance and  
charging schemes for the single  
European sky for oversight  
competences**

October 2020  
**Verification Programme**

**LEGAL NOTICE**

This deliverable was developed by EY Réviseurs d'Entreprises SRL upon request of the European Commission under the specific contract MOVE/E3/SER/2018-319/SI2.811081 for assistance for the implementation of performance and charging schemes for the single European sky for oversight competences.

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## Abbreviations

ANS	Air navigation services
ANSP	Air navigation service provider
ATM	Air traffic management
C	Confirmed
CAPEX	Capital expenditure
DG MOVE	Directorate-General for Mobility and Transport
E	Exception
EC	European Commission
EU	European Union
FTE	Full-time equivalent
GAAP	Generally accepted accounting principles
GL	General ledger
IAASB	International Auditing and Assurance Standards Board
IAS 16	International Accounting Standard 16 - Property, Plant and Equipment
IAS 19	International Accounting Standard 19 - Employee Benefits
IAS 38	International Accounting Standard 38 - Intangible Assets
IFRS	International Financial Reporting Standards
IFRS 15	International Financial Reporting Standards 15 - Revenue from Contracts with Customers
ISRS	International Standard on Related Services
ISRS 4400	International Standard on Related Services - Agreed-Upon Procedures Engagements
IT	Information technology
N.A.	Not applicable
NSA	National supervisory authority
OPEX	Operating expenditure
P&L	Profit and Loss
PRB	Performance Review Body
RP	Reference Period
RP2	Reference Period 2
RP3	Reference Period 3

SES	Single European Sky
SESAR	Single European Sky ATM Research
WACC	Weighted average cost of capital

## Introduction

The objective of the present document is to provide the national supervisory authorities (NSAs), as intended users, with a structured approach regarding the verification of the determined and actual costs for the provision of air navigation services (ANS). This verification should cover, in respect of each charging zone, all the costs included in the cost base pursuant to Article 22(7) of Implementing Regulation (EU) 2019/317 and Article 15(2) of Regulation (EC) 550/2004, namely:

- the costs of ANS provision as broken down between the service provider entities concerned,
- the costs incurred by NSAs and/or qualified entities, and
- the other costs incurred by the relevant Member State and service provider in relation to the provision of air navigation services.

However, the main focus should be on air navigation service providers (ANSPs) as they represent the biggest cost share in the cost bases for ANS charges. This document is designed as a working instrument for NSAs, to assist them in the realisation of compliance verifications in the context of their oversight attributions referred to in Article 2(1) and 2(2) of Regulation (EC) No 550/2004, as amended by Regulation (EC) No 1070/2009.

This programme is intended to be read in conjunction with the accompanying Training Material, which provides explanations and guidance on the verification procedures included in the programme. The end users of the Verification Programme and Training Material need to have basic accounting background.

For more details on the objectives of the programme, the legal basis for the verification and the approach to the verification, we refer to the Introduction section of the accompanying Training Material.

The outcome of the Verification Programme is to allow NSAs to issue a Verification Report. Referring to Article 2(2) of Regulation (EC) 550/2004, the NSAs shall perform inspections and surveys, including onsite visits as appropriate. The air navigation service provider concerned are required to facilitate such work.

This report will act as a formal summary of the identified exceptions during the NSAs onsite inspections and surveys for verifying the unit cost claimed.

### ***How to fill in the Verification Programme***

The verification programme can be filled-in as Microsoft Word document, or can be used in its Microsoft Excel version (refer to Tool 7).

The reference column in the Verification Programme (e.g. A.1.2 etc.) contains references to the relevant sections of the Training Material.

The column 'Procedures' includes the verification procedures to be performed. The procedures are accompanied by explanatory background and specific legal basis references.

The 'Factual finding' column contains a relevant statement based on the SES regulations on which the NSAs will conclude on in the 'Result' column.

The 'Result' column in the sections of the Verification Programme reflects the conclusion on the 'Factual finding', after performing the 'Procedures':

- 'C' stands for 'confirmed' and means that the verifier can confirm the 'Factual finding' and, therefore, there is no exception or anomaly to be reported.
- 'E' stands for 'exception' and means that the verifier carried out the procedures but cannot confirm the 'factual finding', or that the verifier was not able to carry out a specific procedure (e.g. because it was impossible to reconcile key information or data were unavailable). Normally, all cases in which exceptions are identified should be included by the NSA as factual findings in the verification report.
- 'N.A.' stands for 'not applicable' and means that the Finding did not have to be examined by the verifier and the related Procedure(s) did not have to be carried out. The reasons of the non-application of a certain Finding must be obvious, for example if no cost was declared under a certain cost category then the related Finding(s) and Procedure(s) are not applicable.

The greyed-out parts of the Verification Programme (sections Factual Finding and Result) mean that in these cases the indicated Procedures are steps in the audit cycle and will not result in any Factual Findings for the ANSP.

### ***How is the Verification programme built?***

The Verification programme is separated in two main parts, which relate to the type of costs being verified by the NSAs:

- a. The first part covers the procedures needed to be performed for the verification of the Determined Costs, and
- b. the second part details the procedures that needs to be performed during the verification of the Actual Costs.

Accordingly, the frequency of the verifications to be performed for the determined and actual costs, differs based on the frequency the service providers declare them. Therefore, the determined costs need to be verified in respect of each reference period and whenever the cost bases for charges are set or revised as part of the performance plans, in conjunction with the performance targets in the key performance area of cost-efficiency. However, concerning the investments, this cost category needs to be reviewed on a yearly basis. If the service provider aims to add, cancel or replace any investment, these changes require the approval of the NSA, after consultation of airspace users' representatives.

For Actual Costs the NSAs need to verify the cost eligibility and cost allocations on a yearly basis.

## A. Determined costs

### A.1 Planning Phase

Ref	Procedures	Factual finding	Result (C / E / N.A.)
A.1.1	<p><b>DEFINE SCOPE AND OBJECTIVE</b></p> <p>When starting to use the Verification Programme, the NSA is required to define and document a clear objective of the verification.</p> <p>The determined costs are used to establish, as part of the Performance Plans, the stable cost base for the charges to airspace users during each reference period (RP). The NSAs need to verify therefore that the inputs from the ANSPs for the determined costs comply with the financial principles for establishing the cost base and with the eligibility requirements as regards the elements of cost. As per the legal requirements, the NSA needs to consider that determined costs included in the cost bases for en route and terminal charges shall consist of staff costs, operating costs, depreciation costs, cost of capital and exceptional costs. Consequently, a full scope approach (i.e. the verification of all categories of costs by nature as reported in the reporting tables) is recommended.</p> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317 Recital 29, Art. 22.1, Art. 2.1, Art. 1.3; Regulation (EC) No 550/2004 (as amended by Regulation (EC) No 1070/2009) Art. 2.1, Art. 2.2, Art. 2.4, Art. 2.5, Art. 2.6, Art. 8.3 and Implementing Regulation (EU) 2017/373 Art. 5.</p>		

<p><b>A.1.2</b></p>	<p><b>REQUEST INFORMATION FROM THE SERVICE PROVIDER</b></p> <p>NSAs are able to obtain from the ANSPs under their supervision, relevant data necessary for the purpose of ensuring the proper implementation and oversight of the SES Regulations. As per the legal requirements, the ANSPs should facilitate inspections and surveys carried out by the NSAs for the purpose of monitoring the implementation of the performance and charging schemes.</p> <p>The NSA can use a standardised list of documentation for the information to be requested from the ANSP (refer to Tool 2) and a dedicated Pre-fieldwork Questionnaire (refer to Tool 3), in order to obtain information such as:</p> <ul style="list-style-type: none"> <li>– The financial assumptions of the ANSP on the basis of which the input for filling the determined costs of the Performance Plan was prepared, as regards costs by nature;</li> <li>– The overview of investments, including new, foreseen investments;</li> <li>– The overview of sources of revenue, including any public funds or EU financial assistance;</li> <li>– The methodologies for cost allocation between charging zones.</li> </ul> <p>The NSA should secure the cooperation of the ANSP during the verification process, i.e. ensure that further documentation will be provided when requested and that access to relevant personnel is possible.</p> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317 Recital 7, Recital 15, Recital 30, Art. 4.1, Art. 4.2; Annex II, Point 3.3 (f), Point 3.3 (i), Point 3.3 (j), Point 4.1, Point 4.2; Annex VII, Point 2.1(f), Point 2.2(h), Point 2.2; Annex IX, Point 1, Point 4; Regulation (EC) No 550/2004 (as amended by Regulation (EC) No 1070/2009) Art.2, Art. 10, Art. 12.1, Art. 12.1, Art. 12.2, Art. 12.3, Art. 15.1 and Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II Subpart B, Subpart C, Annex III Subpart A, Subpart B, Subpart D.</p>	<p>1) The information requested for the preparation of the verification was provided.</p> <p>2) The Pre-fieldwork Questionnaire for the preparation of the verification was duly filled in and provided.</p> <p>3) Confirmation was given regarding the access of the NSA to further documentation and ANSP relevant personnel during the field work, as needed.</p>	<p><i>(Please complete with C, E, N.A)</i></p>
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<p><b>A.1.3</b></p>	<p><b>PERFORM PRELIMINARY RISK ASSESSMENT AND SAMPLING</b></p> <p>Considering the overall objective of the verification, the amounts included in the cost base for the determined costs compared to the baseline and to the actual costs reported in the previous RP, as well as the elements from the Pre-fieldwork Questionnaire (Tool 3), the NSA is advised to identify the critical elements for achieving the performance targets and assess a level of risk for the verification which will determine the nature and extent of tests to be performed. For assessing the preliminary risks, NSAs should consider the following elements<sup>1</sup>:</p> <ol style="list-style-type: none"> <li>1. Previous experiences with the service providers and their reporting tables;</li> <li>2. Analyse the costs by nature declared by the ANSPs and the service providers and their variances compared with the previous years' costs (risk of unusual items or transactions); and,</li> <li>3. Document the preliminary risk assessment and the final decision of scoping the entities and cost categories for the verification process.</li> </ol> <p>There is a direct relationship between the critical elements for achieving the performance targets, the identified risks and the sample size. This relationship should to be considered when performing the Preliminary Risk Assessment. The risk assessment will impact the sample size in terms of number of items to be tested (i.e. the higher the risk level, the higher the number of items to be tested), therefore when determining the sample, the below steps<sup>2</sup> need to be followed:</p> <ul style="list-style-type: none"> <li>– Step 1: Use of professional judgement on internal controls as well as previous audit reports;</li> </ul>	<p>4) The detailed cost breakdown generated from the ANSPs internal accounting is extracted from the regulated accounts for air navigation services and the amounts of the cost base (cost by nature or cost by service) declared in the reporting tables and reconciled with the detailed breakdown of costs extracted by the ANSPs accounting system or audited financial statements.</p>	
		<p>5) ANSP provided the necessary documents for the NSA to determine the sample.</p>	

<sup>1</sup> Please refer to the Training Material section A.1.3 for the detailed description of the Preliminary Risk Assessment steps.

<sup>2</sup> Please refer to the Training Material section A.1.3 for the detailed description of the Determining the Sample steps.

	<ul style="list-style-type: none"> <li>– Step 2: Analyse the consolidated reporting table versus the individual ANSPs reporting tables and identify the total share of each service provider towards the consolidated total costs;</li> <li>– Step 3: Identify the population of cost items included in the reporting tables (for example, the next level of detail such as the split by type of costs in each cost by nature); and</li> <li>– Step 4: Determine the sample size and the sampled items.</li> </ul> <p><i>(Please refer to the Training Material Section A.1.3 for detailed information on the additional cross checks for determining the Preliminary Risk Assessment and determining the sample. Additionally, please refer to Tool 6 of the Verification Programme Toolkit - Preliminary Risk Assessment and sampling template).</i></p> <p>The initial cost information provided by the ANSP to the NSA may lead to performance targets that are not consistent with the Union-wide performance targets. In that case, the NSA should liaise with the ANSP in respect of the revision of the performance plan with targets that are consistent with the Union-wide performance targets.</p> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317. Recital 34, Art. 22.1; Regulation (EU) No. 549/2004, Art. 4.2; Regulation (EU) No. 550/2004, Regulation (EC) No 1070/2009, Art. 3.1, Art. 6, and Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II Subpart B, Subpart C, Annex III Subpart A, Subpart B, Subpart D.</p>	<p>6) The initial cost information provided leads to performance targets that are consistent with the Union-wide performance targets or the NSA and the ANSP will revise their performance plan to obtain targets that are consistent with the Union-wide performance targets.</p>	
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## A.2 Execution Phase

Ref	Procedures	Factual finding	Result (C / E / N.A.)
<b>A.2.1 VERIFICATION OF COSTS BY NATURE (COST BASE ELIGIBILITY AND ACCURACY)</b>			
A.2.1.1	<p><b>PROCEDURES TRANSVERSAL TO ALL COST CATEGORIES BY NATURE</b></p> <p>According to Article 22 of Implementing Regulation (EU) 2019/317, the cost base for en route and terminal charges shall consist of the determined costs related to the provision of air navigation services in the charging zone concerned.</p> <p>According to Article 10.2 (a) of Implementing Regulation (EU) 2019/317, the baseline value for determined costs shall be estimated by using the actual costs available for the preceding reference period and adjusted to take account of latest available cost estimates, traffic variations and their relation to costs.</p> <p>NSAs should verify that the established determined costs only comprise cost items that are eligible under the performance and charging scheme.</p> <p>It is assumed that the actuals used for the determined costs baseline were already verified by the NSA in the past, meaning that no additional verification is required in addition to the steps listed below. If they were not or not sufficiently verified, a verification of the actuals should also be performed in line with the procedures described for the actual costs.</p> <p>The NSA needs to apply the following verification procedures:</p> <ul style="list-style-type: none"> <li>– Verify that the ANSP has separate accounts for ANS and non-ANS services. Costs that are not related to the provision of air navigation services should not be included in the cost base for setting the unit rate. Inter alia that concerns costs related to equipment not used for providing such services during a given year or costs incurred to</li> </ul>	<p>7) The actuals used for the determined costs baseline were already verified by the NSA in the past or were verified in the context of this verification of determined costs.</p> <p>8) The ANSP has separate ANS and non-ANS accounts.</p> <p>9) The determined costs included in the reporting tables are consistent with the ANSP business plan or a justification with supporting evidence was provided by the ANSP.</p>	

	<p>decommission an asset, to write-off of the remaining asset value where the asset was no longer in use, or expenses to put into service a new asset in the following year;</p> <ul style="list-style-type: none"> <li>– Verify the consistency between the determined costs included in the Reporting tables and the ANSP business plan (if any);</li> <li>– Verify that there is an audit trail between the determined costs of the Reporting Period and the available actual costs for the preceding reference period, taking into account all the adjustments performed (the specific verification on each cost by nature are described in the next sections);</li> <li>– Reconcile the values used for the determined costs baseline with the actual costs for the preceding reference period;</li> <li>– Check that the determined costs do not include elements that are specifically not allowed under the Service Provision Regulation<sup>3</sup>, such as the cost of penalties imposed by Member States (according to Article 9 of the Framework Regulation<sup>4</sup>) and the cost of any corrective measures imposed by the Framework Regulation;</li> <li>– Verify the restructuring costs included in the Performance Plan against their definition.</li> </ul> <p><i>Legal basis:</i></p> <p>Regulation (EC) No 549/2004, Art. 9; Regulation (EC) No 550/2004, Art. 10.2 (a), Art. 10.2 (h), Art. 10.2 (i), Art. 12.1, Art. 12.3, Art. 15.2 (b), Art. 15.2(c), Art. 15.2(d), 15.2(f), Art. 22.1, Art. 22.2, Art. 22.3, Art. 22.4, Art. 22.5, Art. 22.7, Art. 31.6; Annex VII, Point 1.1, Point 1.2, Point 2.1(b), Point 2.1(f); Annex IX, Point 1; Implementing Regulation (EU) 2019/317, Art. 2.18, Art. 22, Art. 10.2(a), Annex II, Point 3.3 and Annex IV, Point 1.4.</p>	10) There is an audit trail between the determined costs of the Reporting Period and the available actual costs for the preceding reference period.	
		11) The values used for the determined costs baseline were reconciled with the actual costs for the preceding reference period.	
		12) The ANS determined costs do not include the cost of penalties or the cost of corrective measures imposed under Article 9 of the Framework Regulation (Reg. 549/2004).	
		13) The restructuring costs included in the Performance Plan were verified against their definition.	

<sup>3</sup> Regulation (EC) No 550/2004 of the European Parliament and of the Council of 10 March 2004 on the provision of air navigation services in the single European sky as amended by Regulation (EC) No 1070/2009.

<sup>4</sup> Regulation (EC) No 549/2004.

A.2.1.2	<p><b>PROCEDURES FOR STAFF COSTS</b></p> <p>According to the Article 22 of Implementing Regulation (EU) 2019/317, staff costs should include gross remuneration, overtime payments, and employers' contributions to social security schemes, as well as pension costs and costs of other benefits. Pension costs shall be calculated using prudent assumptions based on the applicable pension scheme or on national law, as appropriate. Those assumptions shall be specified in the Performance Plan.</p> <p>The NSA is responsible to check that the ANSP complies with these regulatory requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Verify that the only elements included in the staff cost reported in the reporting tables are the ones listed in the regulatory framework;</li> <li>– Check that only the ANS related staff costs were reported in the reporting tables;</li> <li>– Verify that all adjustments performed to the staff costs rely on sound assumptions;</li> <li>– Verify that the adjustments are correctly reflecting the assumptions;</li> <li>– Perform an in-depth verification of pension costs, leveraging the performance plan details and any actuarial report available.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Recital 36, Art. 22.4; Annex II, Point 3.3 (f).</p>	14) Staff costs in the reporting tables only contain the elements listed in the regulatory framework.	
		15) Only the staff costs related to ANS were included in the reporting tables.	
		16) All adjustments performed to the staff costs rely on sound assumptions.	
		17) The adjustments are correctly reflecting the assumptions.	
		18) No issue was detected during the in-depth verification of pension costs.	
A.2.1.3	<p><b>PROCEDURES FOR OPERATING COSTS OTHER THAN STAFF COSTS</b></p> <p>According to the Article 22 of Implementing Regulation (EU) 2019/317, operating costs other than staff costs should include the following elements: costs incurred for the purchase of goods and services used to provide ANS, including outsourced services, material, energy, utilities, rental of buildings, equipment and facilities, maintenance, insurance costs and travel expenses.</p>	19) Other operating cost reported in the reporting tables only contain the elements listed in the regulatory framework.	

	<p>The NSA is responsible for checking that the ANSP complies with these regulatory requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Verify that the only elements included in the other operating cost reported in the reporting tables are the ones listed in the regulatory framework;</li> <li>– Check that only the ANS related other operating costs were reported in the reporting tables;</li> <li>– Verify that all adjustments performed to the other operating costs rely on sound assumptions;</li> <li>– Verify that the adjustments are correctly reflecting the assumptions.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 22.4; Annex II Point 2.2; Annex VII, Point 2.1(d); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(a)</p>	20) Only the other operating costs related to ANS were included in the reporting tables.	
		21) All adjustments performed to the other operating costs rely on sound assumptions.	
		22) The adjustments are correctly reflecting the assumptions.	
A.2.1.4	<p><b>PROCEDURES FOR DEPRECIATION</b></p> <p>According to the legal framework, depreciation costs include costs related to the total fixed assets in operation for the purpose of providing ANS. The value of fixed assets shall be depreciated in accordance with their expected operating life, using the straight-line method applied to the costs of the assets being depreciated. Historical or current cost accounting shall be applied for the calculation of the depreciation. The methodology used to calculate depreciation costs shall not be altered during the duration of the depreciation and shall be consistent with the cost of capital applied, that is to say nominal cost of capital for historical cost accounting and real cost of capital for current cost accounting.</p> <p>Where current cost accounting is applied, the cost of capital shall not include inflation and the equivalent historical cost accounting figures shall also be provided to allow for comparison and assessment.</p>	23) Depreciation costs in the reporting tables only contain the elements allowed by the regulatory framework.	
		24) Only the depreciation costs related to ANS were reported in the reporting tables.	

	<p>In relation to depreciation, the NSA should perform the following procedures:</p> <ul style="list-style-type: none"> <li>– Verify that the only depreciation cost included in the reporting tables are the ones allowed by the regulatory framework. This refers to the check that no cost is double charged to the airspace users through depreciation and through other operating costs and that no depreciation is accounted for assets under construction.</li> <li>– Check that only the ANS related depreciation costs were reported in the reporting tables.</li> <li>– Verify that the value of fixed assets is being depreciated in accordance with their expected operating life, using the straight-line method.</li> <li>– Verify that the depreciation methodology used was consistent with the one applied to the cost of capital calculation.</li> <li>– Verify that the methodology used to calculate depreciation costs was not altered during the duration of the depreciation.</li> <li>– Verify that all adjustments performed to the other operating costs rely on sound assumptions;</li> <li>– Verify that the adjustments are correctly reflecting the assumptions.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 22.4, 23; Annex VII, Point 2.2(g); Annex IX, Point 1.2(e); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(a).</p>	25) Fixed assets are depreciated in accordance with their expected operating life, using the straight-line method.	
		26) The methodology used to calculate depreciation costs was consistent with the one applied to the cost of capital.	
		27) The methodology used to calculate depreciation costs was not altered during the duration of the depreciation.	
		28) All adjustments performed to the depreciation costs rely on sound assumptions.	
		29) The adjustments are correctly reflecting the assumptions.	

<p><b>A.2.1.5</b></p>	<p><b>PROCEDURES FOR COST OF CAPITAL</b></p> <p>According to the legal framework, the cost of capital shall be equal to the product of the following elements:</p> <ul style="list-style-type: none"> <li>– The sum of the average net book value of fixed assets in operation or under construction and possible adjustments to total assets determined by the national supervisory authority and used by the air navigation service provider and of the average value of the net current assets, excluding interest-bearing accounts, that are required for the purposes of providing air navigation services;</li> <li>– The weighted average of the interest rate on debts and of the return on equity. For air navigation service providers without any equity capital, the weighted average shall be calculated on the basis of a return applied to the difference between the total of the assets referred to in point (i) and the debts.</li> </ul> <p>For the purpose of establishing the cost of capital, the factors to which weight is to be given shall be based on the proportion of financing through either debt or equity. The interest rate on debts shall be equal to the weighted average interest rate on debts of the air navigation service provider. The return on equity shall be the one provided in the Performance Plan for the reference period and shall be based on the financial risk incurred by the air navigation service provider.</p> <p>Where air navigation service providers incur costs from leasing fixed assets, those costs shall not be included in the calculation of cost of capital. The NSA need to apply the following verification procedures:</p> <ul style="list-style-type: none"> <li>– Verify the eligibility and accuracy of all components of the cost of capital calculation by verifying the assumptions taken for each of them;</li> <li>– Validate the cost of capital calculation;</li> <li>– Verify that methodology applied to the cost of capital is consistent with the one used to calculate depreciation costs;</li> </ul>	<p>30) The eligibility and accuracy of all components of the cost of capital calculation was verified.</p>	
		<p>31) The calculation of the cost of capital was correct.</p>	
		<p>32) The methodology applied to the cost of capital was consistent with the one used to calculate depreciation costs.</p>	
		<p>33) The interest rate on debts equals to the weighted average interest rate on debts of the air navigation service provider.</p>	

	<ul style="list-style-type: none"> <li>– Perform an in-depth verification of interest rate and costs, leveraging the Performance Plan details.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art.4.1, Art. 22.4; Annex VII, Point 2.1(i); Annex IX, Point 1.2(f); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(a).</p>		
<b>A.2.1.6</b>	<p><b>PROCEDURES FOR EXCEPTIONAL COSTS</b></p> <p>According to the legal framework, exceptional costs shall consist of non-recurring costs relating to the provision of air navigation services, including any non-recoverable taxes and customs duties.</p> <p>In relation to the exceptional cost, the NSA should perform the following procedures:</p> <ul style="list-style-type: none"> <li>– Verify that the only elements included in the exceptional costs reported in the reporting tables are the ones listed in the regulatory framework;</li> <li>– Check that only the ANS related exceptional costs were reported in the reporting tables;</li> <li>– Verify that all adjustments performed to the exceptional costs rely on sound assumptions;</li> <li>– Verify that the adjustments are correctly reflecting the assumptions.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 22.4; Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(b).</p>	34) Exceptional costs in the reporting tables only contain the elements allowed by the Regulatory Framework.	
		35) Only the ANS related exceptional costs was reported in the reporting tables.	
		36) All adjustments performed to the exceptional costs rely on sound assumptions.	
		37) The adjustments are correctly reflecting the assumptions.	
<b>A.2.2 VERIFICATION OF THE BOOKINGS OF COSTS ON COST CENTRES</b>			
<b>A.2.2.1</b>	<p><b>PROCEDURES FOR COST CENTRES</b></p> <p><i>Cost centres are only used for actual costs in the ANSP finance/controlling software. Hence, no verification procedure is required for determined costs.</i></p>		

A.2.3 VERIFICATION OF ALLOCATIONS			
A.2.3.1	<p><b>PROCEDURES FOR ALLOCATIONS</b></p> <p>According to Regulation (EU) No. 550/2004 as amended by Regulation (EC) No 1070/2009, cross-subsidy is not allowed between en route and terminal charges and costs that pertain to both terminal and en route services shall be allocated in a proportional way between en route services and terminal services on the basis of a transparent methodology.</p> <p>The NSA is responsible for checking that the ANSP complies with these regulatory requirements. It can be done by performing the following procedures:</p> <ul style="list-style-type: none"> <li>– Verify the allocation methodology for determined costs and analyse any significant changes in the allocation methodology and assumptions compared to the one implemented for the actuals of the preceding reference period;</li> <li>– Verify that the allocation methodology is correctly reflected in the costs by service and costs by charging zone.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Recital 31, Recital 32, Art. 4.1, Art.10.2 (b), Art.20.1, Art.20.2, Art.22.1, Art.22.4 , Art. 22.5, Art.22.6, Art. 22.7; Annex VII, Point 2.1(a), Point 2.1(c), Point 2.1(e); Annex IX, Point 1.2(b); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(e)</p>	38) The allocation methodology for determined costs was verified.	
		39) The allocation methodology is correctly reflected in the costs by service and costs by charging zone.	
A.2.4 VERIFICATION OF SPECIFIC LINES			
A.2.4.1	<p><b>PROCEDURES FOR INFLATION</b></p> <p>According to Article 26 of Implementing Regulation (EU) 2019/317, for each year of the reference period, the determined costs included in the cost bases for en route and terminal charges of year n expressed in nominal terms shall be adjusted on the basis of the difference in percentage between the actual inflation index and the forecast inflation index for that year n and included as an adjustment for the calculation of the unit rate for year n+2. The</p>	40) The forecast inflation percentage used by the ANSP is correct.	

	<p>determined costs referred to in the third subparagraph of Article 22(1), and the determined costs referred to in points (c) and (d) of Article 22(4) where historical cost accounting is applied, shall not be subject to any inflation adjustment.</p> <p>The NSA should perform the following procedure:</p> <ul style="list-style-type: none"> <li>– Verify that the ANSP used the correct forecast inflation percentage, i.e. the one from the International Monetary Fund as foreseen by the legal framework.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 2 (11), Art. 26</p>		
<b>A.2.4.2</b>	<p><b>PROCEDURES FOR SPECIFIC COST ITEMS</b></p> <p><i>No general verification procedures apply to these specific cost items. The specific procedures for each cost item are covered in their dedicated sections below.</i></p>		
<b>A.2.4.2.1</b>	<p><b>PROCEDURES FOR SPECIFIC COST ITEMS - COSTS OF NEW AND EXISTING INVESTMENTS</b></p> <p>The new and existing investments are defined in Article 2(15) of Implementing Regulation (EU) 2019/317. This term refers to the acquisition, development, replacement, upgrade or leasing of fixed assets where depreciation costs, cost of capital, or in the case of leasing, operating costs, for that investment are incurred during the reference period covered by the performance plan.</p> <p>Annex II (Template for Performance Plans) describes more precisely what information the Performance Plan shall include for the new and existing investments in terms of costs as well as description and justification.</p> <p>The NSA is responsible for checking that the ANSP complies with these regulatory requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Verify the eligibility of determined costs included;</li> </ul>	<p>41) The eligibility of determined costs included was verified.</p> <p>42) The total determined cost of new and existing investment provided in Reporting Table 1 was reconciled with the detail by investment/asset from the investment plan included in the Performance Plan.</p>	

	<ul style="list-style-type: none"> <li>– Reconcile the total determined cost of new and existing investment provided in Reporting Table 1 with the detail by investment/asset from the investment plan included in the Performance Plan;</li> </ul> <p><i>Legal Basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 2(15), Art. 4.1(c), Art.10.2(i), Art. 18.1(ii), Annex II 2.2(b), Annex VII.2.2.</p>		
<b>A.2.4.2.2</b>	<p><b>PROCEDURES FOR SPECIFIC COST ITEMS - COSTS OF COMPETENT AUTHORITIES, QUALIFIED ENTITIES AND EUROCONTROL</b></p> <p>According to the third subparagraph of Article 22(1) Member States may decide to include in the cost base the following determined costs incurred in relation to the provision of air navigation services, in accordance with the second sentence of point (b) of Article 15(2) of Regulation (EC) No 550/2004 and Regulation (EC) No 1070/2009:</p> <ul style="list-style-type: none"> <li>– Determined costs incurred by competent authorities;</li> <li>– Determined costs incurred by the qualified entities referred to in Article 3 of Regulation (EC) No 550/2004;</li> <li>– Determined costs stemming from the Eurocontrol International Convention relating to cooperation for the safety of air navigation of 13 December 1960 as last amended.</li> </ul> <p>The NSA is responsible to check that the costs claimed comply with these regulatory requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Verify that the authorities and entities for which costs are included in the cost base fulfil all the requirements set out in the Regulation<sup>5</sup>;</li> <li>– Verify the eligibility of the determined costs included in the cost base.</li> </ul>	43) The authorities and entities for which costs are included in the cost base fulfil all the requirements set out in the Regulation.	
		44) The determined costs included in the cost base are eligible.	

<sup>5</sup> The list of requirements is provided in the Training Material.

	<p><i>Legal Basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 22(1) and (2), Recital 29, Regulation (EC) 550/2004 and Regulation (EC) No 1070/2009, Art. 3.</p>		
A.2.4.2.3	<p><b>PROCEDURES FOR SPECIFIC COST ITEMS - PENSION COSTS</b></p> <p><i>The verification of determined pension costs is fully covered in the section A.2.1.2 PROCEDURES FOR STAFF COSTS. Hence, no additional verification procedure is required here.</i></p>		
A.2.4.2.4	<p><b>PROCEDURES SPECIFIC COST ITEMS - INTEREST RATES</b></p> <p><i>The verification of the determined interest cost is fully covered in the section A.2.1.5 PROCEDURES FOR COST OF CAPITAL. Hence, no additional verification procedure is required here.</i></p>		
A.2.4.2.5	<p><b>PROCEDURES FOR SPECIFIC COST ITEMS - NATIONAL TAXATION LAW OR OTHER NEW COST ITEMS</b></p> <p>The NSA are responsible for verifying these costs, performing the following verification procedures:</p> <ul style="list-style-type: none"> <li>– Verify that the assumptions described in the Performance Plans are accurate;</li> <li>– Reconcile the determined costs presented in the Performance Plan with the detail of the reporting tables.</li> </ul> <p><i>Legal Basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 22, Regulation (EU) 391/2013 Art. 7.</p>	45) The assumptions described in the Performance Plans are accurate.	
		46) The determined costs identified in the Performance Plans were reconciled with the costs presented in the reporting tables.	
A.2.4.3	<p><b>PROCEDURES FOR OTHER REVENUES</b></p> <p><i>ANSPs are not required to forecast their future grants and revenues. No determined revenue is to be entered in the reporting tables. Hence, no verification procedure is required.</i></p>		

A.2.4.3.1	<p><b>PROCEDURES FOR OTHER REVENUES ART. 25(2)(i) - FINANCIAL SUPPORT FROM UNION ASSISTANCE PROGRAMMES</b></p> <p><i>ANSPs are not required to forecast their future grants and revenues. No determined revenue is to be entered in the reporting tables. Hence, no verification procedure is required.</i></p>		
A.2.4.3.2	<p><b>PROCEDURES FOR OTHER REVENUES ART. 25(2)(i) - OTHER PUBLIC FUNDS OBTAINED FROM PUBLIC AUTHORITIES</b></p> <p><i>ANSPs are not required to forecast their future grants and revenues. No determined revenue is to be entered in the reporting tables. Hence, no verification procedure is required.</i></p>		
A.2.4.3.3	<p><b>PROCEDURES FOR OTHER REVENUES ART. 25(2)(i) - REVENUE FROM COMMERCIAL ACTIVITIES</b></p> <p><i>ANSPs are not required to forecast their future grants and revenues. No determined revenue is to be entered in the reporting tables. Hence, no verification procedure is required.</i></p>		
A.2.4.3.4	<p><b>PROCEDURES FOR OTHER REVENUES ART. 25(2)(i) - REVENUE FROM CONTRACTS CONCLUDED BETWEEN ANSPs AND AIRPORT OPERATORS</b></p> <p><i>ANSPs are not required to forecast their future grants and revenues. No determined revenue is to be entered in the reporting tables. Hence, no verification procedure is required.</i></p>		
A.2.4.4	<p><b>PROCEDURES FOR COMMON PROJECTS</b></p> <p>According to Article 22(1) of Implementing Regulation (EU) 2019/317, determined costs stemming from new air traffic management (ATM) systems and major overhauls of existing ATM systems shall only be included in the cost base where those systems are consistent with the implementation of the European ATM Master Plan, and, in particular, with the common projects referred to in Article 15a(3) of Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009.</p> <p>According to Art. 15a of Regulation No 550/2004 as amended by Regulation (EC) No 1070/2009, common projects can help with the successful</p>	47) All common projects from the Performance Plan were included in the determined investment costs.	
		48) The eligibility of costs included was verified.	

	<p>implementation of the ATM Master Plan and which are related to network-related functions, improved the overall performance of air traffic management and air navigation services in Europe. These common projects might be eligible for EU funding within the multiannual financial framework.</p> <p>According to Implementing Regulation (EU) No 409/2013, a common project aims to deploy in a timely, coordinated and synchronised way ATM functionalities that are mature for implementation and that contribute to the achievement of the essential operational changes identified in the European ATM Master Plan. Only ATM functionalities requiring synchronised deployment and contributing significantly to Union-wide performance targets are to be included in a common project.</p> <p>Implementing Regulation (EU) No 716/2014 identifies a first set of ATM functionalities to be deployed in timely, coordinated and synchronised way so as to achieve the essential operational changes stemming from the European ATM Master Plan. These functionalities are described in detail in the annex of the regulation.</p> <p>The costs related to the common projects are thus included in the new and existing investments of ANSP while the related grants obtained are included in the revenues received from Union assistance programmes.</p> <p>The NSA is responsible to check the compliance with the above requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Verify that only common projects from the Performance Plan were included in the determined investment costs;</li> <li>– Verify the eligibility of determined costs included;</li> <li>– Verify the updated investment plan in case an ANSP intends to add, cancel or replace major investments during the reference period.</li> </ul> <p><i>Legal Basis:</i></p> <p>Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15a; Implementing Regulation (EC) No 409/2013; Implementing Regulation (EC) No 2019/317, Art. 22, Annex II Point 2.2(iv), Point 4.2, Annex V, Annex VII Point 2.1(j), Regulation (EC) No 716/2014.</p>	<p>49) The updated investment plan was verified in case an ANSP intends to add, cancel or replace major investments during the reference period.</p>	
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### A.3 Conclusion Phase

Ref	Procedures	Factual finding	Result (C / E / N.A.)
A.3.1	<p><b>SUMMARISE DRAFT FINDINGS AND SHARE WITH ANSP</b></p> <p>At the end of the fieldwork, NSAs should prepare a summary of the findings identified, quantify them (if possible) and draft the verification report.</p> <p>The purpose of sharing a draft verification report is to:</p> <ul style="list-style-type: none"> <li>– Formally communicate to the ANSP the findings identified following the verification,</li> <li>– Introduce to the ANSPs the impact of the identified exceptions,</li> <li>– Introduce to ANSPs the sanctions and the corrective measures imposed for each of the exceptions identified.</li> <li>– Provide the opportunity to ANSPs to comment and deliver further supporting evidence.</li> </ul> <p><i>Legal basis:</i></p> <p>Regulation (EU) No. 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 7.7, Art. 15, Regulation (EU) No. 549/2004, Art.9 and Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II Subpart C, Annex III Subpart B.</p>		
A.3.2	<p><b>FINALISE VERIFICATION REPORT</b></p> <p>Following the provision by the ANSP of their comments and, or additional supporting evidences on the raised findings and recommendations, the NSA needs to assess whether the findings will be waived, reviewed or kept including the respective deadlines and corrective measures proposed.</p> <p>The final verification report, as approved internally by the NSA, should also be communicated formally to the ANSP.</p>	50) The supporting evidence obtained after the execution phase has been tested by the NSA.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>The final report should reflect the official response obtained from the ANSPs and if it did or did not impact the findings. The final report should be shared with the European Commission.</p> <p><i>Legal basis:</i></p> <p>Regulation (EU) No. 550/2004, as amended by Regulation (EC) No 1070/2009, Art. 7.7, Art. 15, Regulation (EU) No. 549/2004, Art.9 and 12(1) and Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II Subpart B, Subpart C, Annex III Subpart A, Subpart B, Subpart D.</p>	51) The supporting evidence obtained after the execution phase is considered relevant, sufficient and reliable.	
		52) The feedback and the additional supporting evidence provided by the ANSPs confirm the procedures that were previously identified as “Exceptions” in the draft report.	
A.3.3	<p><b>FOLLOW UP ON THE IMPLEMENTATION OF FINDINGS</b></p> <p>While ensuring that the performance targets included in the Performance Plans are consistent with the Union-wide performance targets and completing the final verification report, part of the job of the NSAs will be to keep track of the findings.</p> <p>A database of the finalised findings, the respective cost category, the raised recommendations by the NSA and their status of implementation from the ANSPs, should be fed continuously with information after each verification process.</p> <p>This database should be updated reflecting the actual status with regards to the implementation of the findings. Keeping good records of the verifications performed can help to comply with Art. 7.7 of Regulation (EU) No 550/2004, where it states that national supervisory authorities shall monitor compliance</p>		

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>with the common requirements. Additionally, it may also help to answer better the queries from the European Commission in their monitoring review.</p> <p><i>Legal basis:</i></p> <p>Regulation (EU) No. 549/2004, Art.9. Regulation (EU) No. 550/2004, Regulation (EC) No 1070/2009, Art. 7.7, Art. 15, Regulation (EU) No. 549/2004, Art.9 and Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II Subpart B, Subpart C, Annex III Subpart A, Subpart B, Subpart D.</p>		

## B. Actual costs

### B.1 Planning Phase

Ref	Procedures	Factual finding	Result (C / E / N.A.)
B.1.1	<p><b>DEFINE SCOPE AND OBJECTIVE</b></p> <p>When starting to use the Verification Programme, the NSA is required to define and document a clear objective of the verification.</p> <p>As per the legal requirements, the NSA needs to consider that costs included in the cost bases for en route and terminal charges shall consist only of staff costs, operating costs, depreciation costs, cost of capital and exceptional costs and that all provisions defined in the Regulation for determined costs shall apply <i>mutatis mutandis</i> to the establishment of actual costs. Consequently, a full scope approach (i.e. the verification of all categories of actual costs) is recommended.</p> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 1.3, Art. 22.1, Art.23; Regulation (EC) No 550/2004; Regulation (EC) No 1070/2009, Art. 2.1, Art. 2.2, Art. 2.3, Art. 2.4, Art. 2.5, Art. 2.6, Art. 8.3 and Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5.</p>		
B.1.2	<p><b>REQUEST INFORMATION FROM THE SERVICE PROVIDER</b></p> <p>NSAs are able to obtain from the ANSPs under their supervision, relevant data necessary for the purpose of ensuring the proper implementation and oversight of the SES Regulations. As per the legal requirements, the ANSPs should facilitate inspections and surveys carried out by the NSAs for the purpose of monitoring the implementation of the performance and charging schemes. The NSA can use a standardised list of documentation for the information to be requested from the ANSP (refer to Tool 2) and a dedicated</p>	53) The information requested for the preparation of the verification was provided.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>Pre-fieldwork Questionnaire (refer to Tool 3), in order to obtain information such as:</p> <ul style="list-style-type: none"> <li>– Description of the reported actual costs and the difference between those costs and the determined costs;</li> <li>– The breakdown of the actual costs of common projects per individual project and all the public funds granted and received yearly from Member States or EU which are to be monitored using also Annex IX Table 4 and to be eventually deducted from the unit rate as 'other revenue';</li> <li>– Justification of the difference between the determined and the actual costs of new and existing investments, as well as the difference between the planned and the actual date of entry into operation of the fixed assets financed by those investments for each year of the reference period;</li> <li>– Description of the investment projects added, cancelled or replaced during the reference period.</li> </ul> <p>The NSA should secure the cooperation of the ANSP during the verification process, i.e. ensure that further documentation will be provided when requested and that access to relevant personnel is possible.</p> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317 Recital 7, Recital 30, Art. 4.1, Art. 4.2; Annex II, Point 3.3 (f), Point 3.3 (i), Point 3.3 (j), Point 4.1, Point 4.2; Annex VII, Point 2.1(f), Point 2.2(h), Point 2.2(a), Point 2.2(c), Point 2.2(d), Point 2.2(e); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 10, Art. 12.1, Art. 12.2, Art. 12.3, Art. 15.1 and Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II Subpart B, Subpart C, Annex III Subpart A, Subpart B, Subpart D.</p>	<p>54) The Pre-fieldwork Questionnaire for the preparation of the verification was duly filled in and provided.</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
B.1.3	<p><b>PERFORM PRELIMINARY RISK ASSESSMENT AND SAMPLING</b></p> <p>The NSA should determine the focus of its testing areas for the verification on the basis of a risk assessment. To that end, it should consider the overall objective of the verification, the amounts included in the cost base for the actuals, the corresponding determined costs, the actual costs reported in the previous RP, and the elements from the Pre-fieldwork Questionnaire (Tool 3).</p> <p><i>A. For the verification of the eligibility of costs, referring to the total costs reported in Table 1</i></p> <p>For assessing the preliminary risks, NSAs should consider the following elements:</p> <ol style="list-style-type: none"> <li>1. Previous experiences with the service providers and their reporting tables;</li> <li>2. Analyse the costs by nature declared by the ANSPs and the service providers and their variances compared with the previous years' costs (risk of unusual items or transactions); and,</li> <li>3. Document the preliminary risk assessment and the final decision of scoping the entities and cost categories for the verification process.</li> </ol> <p>There is a direct relationship between the identified risks and the sample size and this relationship should to be considered when performing the Preliminary Risk Assessment. The risk assessment will impact the sample size in terms of number of items to be tested (i.e. the higher the risk level, the higher the number of items to be tested), therefore when determining the sample, the below steps need to be followed:</p>	55) The detailed cost breakdown generated from the ANSPs internal accounting is extracted from the regulated accounts for air navigation services; the amounts of the cost base (cost by nature or cost by service) declared in the reporting tables reconcile with the detailed breakdown of costs extracted by the ANSPs accounting system or audited financial statements.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>Step 1: Use of professional judgement on internal controls as well as previous audit reports;</p> <p>Step 2: Analyse the consolidated reported table versus the individual ANSPs reporting tables and identify the total share of each service provider in the consolidated total costs;</p> <p>Step 3: Identify the population of cost items included in the reporting tables (for example, the next level of details such as the split by type of costs in each cost by nature); and</p> <p>Step 4: Determine the sample size and the sampled items.</p> <p><u>B. For the verification of the adjustments resulting from the unforeseen changes reported as per the requirements of the Article 28 of Implementing Regulation (EU) 2019/317 and reflected in Reporting Table 2B.</u></p> <p>The NSAs can verify those adjustments incurred that have significant variance between the determined and the actual costs.</p> <p><u>C. For the verification of the cost allocations:</u></p> <p>NSAs can start the verification of the cost allocations based on the information they have at hand during the second part of the prior year. Once the service providers will have the finalized data, the NSAs can verify during the fieldwork of the current year only the differences from the last verification performed during the second part of year n-1.</p> <p><i>(Please refer to the Training Material Section A.1.3 for detailed information on the additional cross checks for determining the Preliminary Risk Assessment and determining the sample. Additionally, please refer to Tool 6 of the Verification Programme Toolkit - Preliminary Risk Assessment and sampling template).</i></p>	56) ANSP provided the necessary documents for the NSA to determine the sample.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317. Recital 34, Art. 22.1, Art. 28;  Regulation (EU) No. 549/2004, Art. 4.2; Regulation (EU) No. 550/2004 as  amended by Regulation (EC) No 1070/2009, Art. 3.1, Art. 6, and  Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II  Subpart B, Subpart C, Annex III Subpart A, Subpart B, Subpart D.</p>		

## B.2 Execution Phase

Ref	Procedures	Factual finding	Result (C / E / N.A.)
<b>B.2.1 VERIFICATION OF COSTS BY NATURE (COST BASE ELIGIBILITY AND ACCURACY)</b>			
<b>B.2.1.1</b>	<p><b>PROCEDURES TRANSVERSAL TO ALL COST CATEGORIES BY NATURE</b></p> <p>According to Article 12 of Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, the NSA has to verify that the ANSP has prepared its financial accounts and that these have been audited. The financial statements need to comply with the international accounting standards adopted by the European Union.</p> <p>The NSA further needs to gain confidence that, when providing a bundle of services, ANSPs identify and disclose the costs and income deriving from ANS, broken down in accordance with the charging scheme for air navigation services and, where appropriate, keep separate accounts for other, non-ANS, as they would be required to do if the services in question were provided by separate undertakings.</p> <p>Thus, the NSAs need to check the audit trail between the Financial Statements of the ANSP, audited by an external financial auditor, the regulated accounts (ANS cost) and the reporting tables submitted to the Commission, by performing various procedures:</p> <ul style="list-style-type: none"> <li>– Verify that the ANSP's financial statements were subject to an independent financial audit and were published;</li> <li>– Verify that the ANSP has separate accounts for ANS and non-ANS services. Costs that are not related to the provision of regulated air navigation services or not incurred in the year should not be included in the cost base for setting the unit rate. Inter alia that concerns costs</li> </ul>	57) The ANSP's financial statements were subject to an independent financial audit and were published.	
		58) The ANSP has separate ANS and non-ANS accounts.	
		59) The grouping/mapping of the ANS accounts corresponds to the costs by nature reported.	
		60) The amounts reported in the reporting tables by the ANSP reconcile to the ANS separate accounts and to the audited Financial Statements.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>related to equipment not used for providing such services during a given year or costs incurred to decommission an asset, to write-off of the remaining asset value where the asset was no longer in use, or expenses to put into service a new asset in the following year;</p> <ul style="list-style-type: none"> <li>– Review the grouping/mapping of the ANS costs into the cost by nature categories in the reporting tables;</li> <li>– Reconcile the cost by nature amounts reported in the Reporting Table 1 by the ANSP to the ANS separate accounts and to the audited Financial Statements;</li> <li>– Check that the reported costs do not include elements that are specifically not allowed under the Service Provision Regulation<sup>6</sup>, such as the cost of penalties imposed by Member States (according to Article 9 of the Framework Regulation<sup>7</sup>) and the cost of any corrective measures imposed by the Framework Regulation.</li> </ul> <p><i>Legal basis:</i></p> <p>Regulation (EC) No 549/2004, Art. 9; Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 12.1, Art. 12.3, Art. 15.2 (b), Art. 15.2(c), Art. 15.2(d), 15.2(f), Art. 22.1, Art. 22.2, Art. 22.3, Art. 22.4, Art. 22.5, Art. 22.7, Art. 23, Art. 28.1, Art. 28.2, Art. 28.3, Art. 28.4, Art. 28.5, Art. 28.6, Art. 31.6; Implementing Regulation (EU) 2019/317 Annex VII, Point 1.1, Point 1.2, Point 2.1(b), Point 2.1(f).</p>	61) The ANS costs do not include the cost of penalties or the cost of corrective measures imposed under the Framework Regulation.	

<sup>6</sup> Regulation (EC) No 550/2004 of the European Parliament and of the Council of 10 March 2004 on the provision of air navigation services in the single European sky as amended by Regulation (EC) No 1070/2009.

<sup>9</sup> Regulation (EC) No 549/2004.

Ref	Procedures	Factual finding	Result (C / E / N.A.)
B.2.1.2	<p><b>PROCEDURES FOR STAFF COSTS</b></p> <p>According to the legal framework, Staff costs include gross remuneration, overtime payments, and employers' contributions to social security schemes, as well as pension costs and costs of other benefits. Pension costs shall be calculated using prudent assumptions based on the applicable pension scheme or on national law, as appropriate. Those assumptions shall be specified in the Performance Plan.</p> <p>In relation to staff only partly (or not at all) involved in providing ANS, the NSA needs to analyse the basis for the allocation of Staff costs between ANS and non-ANS as well as between charging zones, and test how this is put in practice. For this purpose, the NSA is recommended to perform the following procedures:</p> <ul style="list-style-type: none"> <li>– Verify that the only elements included in the Staff cost reported in the reporting tables are the ones listed in the regulatory framework. This is done by reconciling the staff costs included in the cost base with the statutory accounts;</li> <li>– For a sample of Staff costs, check whether the costs have been correctly shared between ANS and non-ANS. This is done by reviewing extracts from the timesheet reporting system, employment contracts or calculations in case of other apportionment basis used;</li> <li>– Perform an in-depth verification of pension costs, leveraging any actuarial report available (especially in the case of other pension schemes than the state plans).</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 22.4, Art. 23; Annex II, Point 3.3 (f)</p>	62) Staff costs in the reporting tables only contain the elements listed in the Regulatory Framework.	
		63) For the sample tested, only the ANS related Staff costs were reported in the reporting tables.	
		64) No issue were detected during the in-depth verification of pension costs was performed.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
B.2.1.3	<p><b>PROCEDURES FOR OPERATING COSTS OTHER THAN STAFF COSTS</b></p> <p>According to the legal framework, Operating costs other than staff costs include the following elements: costs incurred for the purchase of goods and services used to provide ANS, including outsourced services, material, energy, utilities, rental of buildings, equipment and facilities, maintenance, insurance costs and travel expenses. Where such costs have to be capitalised, they have to be depreciated and not be declared as other operating costs.</p> <p>In order to verify the operating costs, NSA should perform the following procedures:</p> <ul style="list-style-type: none"> <li>– Verify that the only elements included in the other operating cost reported in the reporting tables are the ones listed in the regulatory framework;</li> <li>– For a sample of other operating costs, check whether the costs have been correctly shared between ANS and non-ANS.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 22.4, Art. 23; Annex VII, Point 2.1(d); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(a)</p>	65) Other operating costs in the reporting tables only contain the elements listed in the Regulatory Framework.	
		66) For the sample tested, only the regulated ANS related other operating costs were reported in the reporting tables.	
B.2.1.4	<p><b>PROCEDURES FOR DEPRECIATION</b></p> <p>According to the legal framework, depreciation costs include costs related to the total fixed assets in operation for the purpose of providing ANS. The value of fixed assets shall be depreciated in accordance with their expected operating life, using the straight-line method applied to the costs of the assets being depreciated. Historical or current cost accounting shall be</p>	67) Depreciation costs in the reporting tables only contain the elements allowed by the Regulatory Framework.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>applied for the calculation of the depreciation. The methodology used to calculate depreciation costs shall not be altered during the duration of the depreciation and shall be consistent with the cost of capital applied, that is to say nominal cost of capital for historical cost accounting and real cost of capital for current cost accounting.</p> <p>Where current cost accounting is applied, the cost of capital shall not include inflation and the equivalent historical cost accounting figures shall also be provided to allow for comparison and assessment.</p> <p>In relation to depreciation, the NSA should perform the following procedures:</p> <ul style="list-style-type: none"> <li>– Verify that the only depreciation cost included in the reporting tables are the ones allowed by the regulatory framework. This refers to the check that no cost is double charged to the airspace users through depreciation and through other operating costs nor that no depreciation is accounted for assets under construction;</li> <li>– For a sample of depreciation costs, check whether the costs have been correctly shared between ANS and non-ANS. This is done by analysing the basis for the separation and possible allocation of depreciation costs (based on the assets use) between regulated ANS and non (regulated) ANS, and test how this is put in practice. For the sample of depreciation costs selected, the NSA should request the supporting evidence used as a basis for the apportionment and check whether the costs have been correctly shared between regulated ANS and non (regulated) ANS.</li> <li>– Verify that the value of fixed assets was depreciated in accordance with their expected operating life, using the straight-line method;</li> <li>– Verify that the depreciation methodology used was consistent with the one applied to the cost of capital calculation;</li> </ul>	68) For the sample tested, only the regulated ANS related depreciation costs were reported in the reporting tables.	
		69) The value of fixed assets was depreciated in accordance with their expected operating life, using the straight-line method.	
		70) The methodology used to calculate depreciation costs was consistent with the one applied to the cost of capital.	
		71) The methodology used to calculate depreciation costs was not altered during the duration of the depreciation.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- Verify that the methodology used to calculate depreciation costs was not altered during the duration of the depreciation.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 22.4, Art. 23; Annex VII, Point 2.1(g); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(a)</p>		
<b>B.2.1.5</b>	<p><b>PROCEDURES FOR COST OF CAPITAL</b></p> <p>According to the legal framework, the cost of capital shall be equal to the product of the following elements:</p> <ul style="list-style-type: none"> <li>- The sum of the average net book value of fixed assets in operation or under construction and possible adjustments to total assets determined by the national supervisory authority and used by the air navigation service provider and of the average value of the net current assets, excluding interest-bearing accounts, that are required for the purposes of providing air navigation services;</li> <li>- The weighted average of the interest rate on debts and of the return on equity. For air navigation service providers without any equity capital, the weighted average shall be calculated on the basis of a return applied to the difference between the total of the assets referred to in point (i) and the debts.</li> </ul> <p>For the purpose of establishing the cost of capital, the factors to which weight is to be given shall be based on the proportion of financing through either debt or equity. The interest rate on debts shall be equal to the weighted average interest rate on debts of the air navigation service provider. The return on equity shall be that provided in the Performance Plan for the reference period and shall be based on the financial risk incurred by the air navigation service provider.</p>	<p>72) The eligibility and accuracy of all components of the cost of capital calculation was verified.</p> <p>73) The calculation of the cost of capital was correct.</p> <p>74) The methodology applied to the cost of capital was consistent with the one used to calculate depreciation costs.</p> <p>75) The interest rate on debts equals the weighted average interest rate on debts of the air navigation service provider.</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>Where air navigation service providers incur costs from leasing fixed assets, those costs shall not be included in the calculation of cost of capital.</p> <p>To verify the cost of capital, the NSA performs the following procedures:</p> <ul style="list-style-type: none"> <li>– Verify the eligibility and accuracy of all components of the cost of capital calculation by reconciling them with the ANSP regulatory balance sheet and Profit and Loss accounts;</li> <li>– Verify the cost of capital calculation;</li> <li>– Verify that methodology applied to the cost of capital is consistent with the one used to calculate depreciation costs;</li> <li>– Perform an in-depth verification of interest rate and costs.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 4.1, Art. 22.4, Art. 23; Annex VII, Point 2.1(i); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(a)</p>		
<b>B.2.1.6</b>	<p><b>PROCEDURES FOR EXCEPTIONAL COSTS</b></p> <p>According to the legal framework, exceptional costs shall consist of non-recurring costs relating to the provision of air navigation services, including any non-recoverable taxes and customs duties.</p> <p>In relation to the exceptional costs, the NSA should perform the following procedures:</p> <ul style="list-style-type: none"> <li>– Verify that the only elements included in the exceptional costs reported in the reporting tables are the ones allowed by the regulatory framework;</li> <li>– Verify that the costs reported under the exceptional costs are related to the provision of air navigation services.</li> </ul>	<p>76) Exceptional costs in the reporting tables only contain the elements allowed by the Regulatory Framework.</p> <p>77) The costs reported under the exceptional costs were related to the provision of air navigation services.</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 22.4, Art. 23, Annex II, 3.3, (i); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(b)</p>		
<b>B.2.2 VERIFICATION OF THE BOOKINGS OF COSTS ON COST CENTRES</b>			
<b>B.2.2.1</b>	<p><b>PROCEDURES FOR COST CENTRES</b></p> <p>As prerequisite for the process of verifying the cost allocations, the NSA is recommended to check the methodology of the ANSP for the recording of costs on cost centres (if used by the ANSP).</p> <p>To fulfil that objective, the NSA should perform the following procedures:</p> <ul style="list-style-type: none"> <li>– Review and validate the structure of cost centres;</li> <li>– Review and validate the procedure(s) for the booking of costs on cost centres;</li> <li>– Test the correct implementation of the procedure for the booking of costs on cost centres.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 4.1</p>	<p>78) The structure of cost centres is adequate.</p> <p>79) The procedure(s) for the booking of costs on cost centres is adequate.</p> <p>80) For the sample selected, the costs were booked on the correct cost centre.</p>	
<b>B.2.3 VERIFICATION OF ALLOCATIONS</b>			
<b>B.2.3.1</b>	<p><b>PROCEDURES FOR ALLOCATIONS</b></p> <p>According to the Service Provision Regulation, cross-subsidy is not allowed between en route and terminal charges, and costs that pertain to both terminal services and en route services shall be allocated in a proportional way between en route services and terminal services on the basis of a transparent methodology.</p>	<p>81) The allocation model reasonably reflects the actual operations.</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>The NSA is responsible for checking that the ANSP complies with these regulatory requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Obtain the description for the allocation process the ANSP has in place and validate the overall allocation model logic;</li> <li>– For complex allocation models, reconcile the total costs from the sources and destinations for each allocation step;</li> <li>– For a sample of allocation steps: <ul style="list-style-type: none"> <li>○ Reconcile the costs from the allocation sources and destinations;</li> <li>○ Review and validate the causality (i.e. logical relationship) between the allocation sources and destinations;</li> <li>○ Review and validate the causality of the driver/allocation key/criteria used for the allocation from the allocation sources to destinations;</li> <li>○ Reconcile the driver/allocation key/criteria quantities used for allocations with source information.</li> </ul> </li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 4.1, Art. 22.1, Art. 22.4, Art. 22.5, Art. 22.6, Art. 22.7, Art. 23; Annex VII, Point 2.1(a), Point 2.1(c), Point 2.1(e); Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15.2(e).</p>	82) For complex allocation models, the total costs from the sources and destinations were reconciled for each allocation step.	
		83) For the sample of allocation steps tested, no issues were noted.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
<b>B.2.4 VERIFICATION OF SPECIFIC LINES, REVENUES AND ADJUSTMENTS</b>			
<b>B.2.4.1</b>	<p><b>PROCEDURES FOR INFLATION</b></p> <p>According to Implementing Regulation (EU) 2019/317, Article 26, for each year of the reference period, the determined costs included in the cost bases for en route and terminal charges of year n expressed in nominal terms shall be adjusted on the basis of the difference in percentage between the actual inflation index and the forecast inflation index for that year n and included as an adjustment for the calculation of the unit rate for year n+2. The determined costs referred to in the third subparagraph of Article 22(1), and the determined costs referred to in points (c) and (d) of Article 22(4) where historical cost accounting is applied, shall not be subject to any inflation adjustment.</p> <p>The NSA is responsible to check that the ANSP complies with these regulatory requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Reconcile the amounts of the adjustments carried over with the data from the year that the adjustments originate (from previous and current RP);</li> <li>– Depending on the cost accounting method used (historical or current), verify the cost being subject to inflation adjustments;</li> <li>– Verify that the ANSP used the correct actual inflation percentage, i.e. the one published by the Commission in the Eurostat Harmonised Index of Consumer Price for the State concerned as foreseen by the legal framework.</li> </ul>	<p>84) The amounts of the adjustments carried over were reconciled with the data from the year that the adjustments originate (from previous and current RP).</p> <p>85) The determined costs referred to in the third subparagraph of Article 22(1), and the determined costs referred to in points (c) and (d) of Article 22(4) where historical cost accounting is applied, were not subject to any inflation adjustment.</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art. 2 (11) and (12), Art. 26</p>	<p>86) The actual inflation percentage provided in the reporting table was reconciled with the actual inflation rate published by the Commission in the Eurostat Harmonised Index of Consumer Price for the State concerned.</p>	
<p><b>B.2.4.2</b></p>	<p><b>PROCEDURES FOR COST ITEMS REFERRED TO IN ARTICLE 28(3)</b></p> <p>As per Implementing Regulation (EU) 2019/317, Article 28 (2), the general principles assume that the difference between determined and actual costs is covered or retained by the ANSP or the Member State concerned. However, Article 28 (3) highlights exceptions linked to the cost sharing mechanism, emphasising that the difference between actual and determined costs are to be reimbursed to airspace users or recovered from them, under specific rules.</p> <p>According to Article 28 (7), National Supervisory Authorities shall verify annually whether air navigation service providers apply correctly the provisions of Article 28. National supervisory authorities shall draw up a report by 1 September of year n+1 on the changes in costs referred to in paragraph 3 which occurred in year n. The report shall be subject to consultation of airspace users' representatives.</p> <p>While the verification of the adjustments for each category of cost included in Article 28 coming from the current RP are presented below, the ones coming from the previous RP require a slightly different method (i.e. when the adjustment applicable to a year of RP3 comes from a difference between the</p>	<p>87) The amounts of the adjustments carried over from RP2 as cost exempts were reconciled with the data from the year that the adjustments originate (from previous RP).</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>determined and actual costs in a year of RP2), even if the general principle remains the same:</p> <ul style="list-style-type: none"> <li>- Reconcile the amounts of the adjustments carried over from RP2 as cost exempts with the data from the year that the adjustments originate (from previous RP).</li> </ul> <p><i>Legal basis:</i> Implementing Regulation (EU) 2019/317, Art. 28</p>		
B.2.4.2.1	<p><b>PROCEDURES FOR COST ITEMS REFERRED TO IN ARTICLE 28(3) - COSTS OF NEW AND EXISTING INVESTMENTS AND UNFORESEEN CHANGES</b></p> <p>According to Article 28 (3) and (4), the air navigation service provider or the Member State shall not retain the full differences in case of unforeseen changes in costs of new and existing investments.</p> <p>Where, over a calendar year or over the whole reference period, actual costs fall below the determined costs, the air navigation service provider or the Member State concerned shall reimburse the resulting difference to airspace users, through a reduction of the unit rate in year n+2 or in the following reference period, unless, based on a detailed justification of the air navigation service provider, the national supervisory authority decides, after consultation with airspace users' representatives, that the air navigation service provider shall not reimburse a part of the resulting difference.</p> <p>Where, over a calendar year or over the whole reference period, actual costs exceed the determined costs by not more than 5 %, Member States may decide that the resulting difference is recovered from airspace users by the air navigation service provider or the Member State concerned, through an increase of the unit rate in year n+2 or in the following reference period, subject to the approval by the national supervisory authority of a detailed</p>	<p>88) The amounts of the adjustments carried over were reconciled with the data from the year that the adjustments originate (from current RP).</p> <p>89) The actual costs and adjustments are eligible (unforeseen, nature of costs, threshold).</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>justification provided by the air navigation service provider in particular as regards the need to increase capacity and after consultation with airspace users' representatives.</p> <p>Where, during the reference period, air navigation service providers intend to add, cancel or replace major investments with respect to information on major investments identified in the Performance Plan in accordance with point 2.2(b) of Annex II, these changes shall be approved by the national supervisory authority, after consultation of airspace users' representatives.</p> <p>The NSA is responsible to check that the ANSP complies with these regulatory requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Reconcile the amounts of the adjustments carried over with the data from the year that the adjustments originate (from current RP);</li> <li>– Verify the eligibility of costs included and adjustments (unforeseen, nature of costs, threshold);</li> <li>– The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework and with the required pre-approval granted by the NSA and consultation of airspace users;</li> <li>– Verify and reconcile the values provided for the actual new and existing investments costs with the costs by nature.</li> <li>– In case an ANSP intends to add, cancel or replace major investments during the reference period, verify the updated investment plan and related approval process.</li> </ul> <p><i>Legal basis:</i> Implementing Regulation (EU) 2019/317, Art. 28 (3) and (4)</p>	<p>90) The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework and with the required approval and consultation.</p> <p>91) The actual new and existing investments costs were verified and reconciled with the costs by nature.</p> <p>92) The updated investment plan and related approval process was verified in case an ANSP intends to add, cancel or replace major investments during the reference period.</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
B.2.4.2.2	<p><b>PROCEDURES FOR COST ITEMS REFERRED TO IN ARTICLE 28(3) - COSTS OF COMPETENT AUTHORITIES, QUALIFIED ENTITIES AND EUROCONTROL AND UNFORESEEN CHANGES</b></p> <p>Article 28 of Implementing Regulation (EU) 2019/317 sets the rules governing a cost risk sharing mechanism between the airspace users and ANSPs for the RP3. This concerns the situation where the ANSP actual costs (in this case incurred by Eurocontrol, Competent Authorities and Qualified Entities) exceed or fall below the determined costs over a reference period.</p> <p>As per Article 28 (5) and 22 (1) sub paragraph 3, Member States may decide to include in the cost base the incurred by competent authorities, by qualified entities and the costs stemming from the Eurocontrol International Convention relating to cooperation for the safety of air navigation, incurred in relation to the provision of air navigation services.</p> <p>As per Article 28 (3), the general principle (Article 28 (2)) does not apply to unforeseen changes in costs referred to in the third subparagraph of Article 22(1).</p> <p>Therefore, for unforeseen changes associated with the costs of competent authorities, qualified entities and Eurocontrol from year n are settled through an increase or reduction of the unit rate in year n+2.</p> <p>The determined costs referred to in the third subparagraph of Article 22(1) where historical cost accounting is applied, shall be set in nominal terms and shall not be subject of any inflation adjustment.</p> <p>The subsequent procedures are recommended to be followed:</p> <ul style="list-style-type: none"> <li>- Reconcile the amounts of the adjustments carried over with the data from the year that the adjustments originate(from current RP);</li> <li>- Verify that the authorities and entities for which costs are included in the actual costs fulfil all the requirements set out in the Regulation;</li> </ul>	93) The amounts of the adjustments carried over were reconciled with the data from the year that the adjustments originate(from current RP).	
		94) The authorities and entities for which costs are included in the cost base fulfil all the requirements set out in the Regulation.	
		95) The actual costs and related adjustments are eligible.	
		96) The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework and with the required approval and consultation.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- Verify the eligibility of actual costs and related adjustments;</li> <li>- Verify the carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework and with the required approval and consultation.</li> </ul> <p><i>Legal Basis:</i> Implementing Regulation (EU) 2019/317, Art. 22.(1), Art. 28 (5), Regulation (EC) 550/2004 as amended by Regulation (EC) No 1070/2009, Art.3.</p>		
B.2.4.2.3	<p><b>PROCEDURES FOR COST ITEMS REFERRED TO IN ARTICLE 28(3) - PENSION COSTS AND UNFORESEEN CHANGES</b></p> <p>As per Implementing Regulation (EU) 2019/317, Article 28 (3), the general principle (Article 28 (2)) does not apply in case of unforeseen and significant changes in pension costs established in accordance with Article 22(4) resulting from unforeseeable changes in national pensions law, pensions accounting law or unforeseeable changes in financial market conditions, on the condition that such changes in pension costs are outside the control of the air navigation service provider and, in the case of cost increases, that the air navigation service provider has taken reasonable measures to manage cost increases during the reference period.</p> <p>As per Art. 28(6), the differences between determined costs and actual costs shall be shared as follows:</p> <ul style="list-style-type: none"> <li>- When actual costs fall below the determined costs, the ANSPs or the Member States concerned shall reimburse the resulting difference to airspace users through a reduction of the unit rate in year n+2, in the following reference period or in the following two reference periods if the amounts to be recovered impact the unit rate in a disproportionate manner;</li> </ul>	<p>97) The amounts of the adjustments carried over were reconciled the data from the year that the adjustments originate (from previous and current RP).</p> <p>98) The adjustments are eligible (unforeseen, outside of ANSP control and reasonable measures were taken).</p> <p>99) The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework.</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- In cases when the actual costs exceed the determined costs the ANSPs or the Member States concerned may apply an increase of the unit rate in year n+2, in the following reference period or in the following two reference periods if the amounts to be recovered impact the unit rate in a disproportionate manner.</li> </ul> <p>Referring RP3's legal framework, to Article 22(4), pension costs shall be calculated using prudent assumptions based on the applicable pension scheme, or on national law, as appropriate. These assumptions shall be specified in the Performance Plans.</p> <p>Referring to the legal framework of RP2 Art. 14(2), for unforeseen changes associated with the pension costs where, over the whole reference period:</p> <ul style="list-style-type: none"> <li>- Actual costs are lower than the determined costs established at the beginning of the reference period, the resulting difference shall be returned to airspace users through a carry over to the following reference period(s);</li> <li>- Actual costs exceed the determined costs established at the beginning of the reference period, the resulting difference shall be passed on to airspace users through a carry over to the following reference period(s).</li> </ul> <p>The NSA is responsible to check the compliance with the above requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>- Reconcile the amounts of the adjustments carried over with the data from the year that the adjustments originate (from previous and current RP);</li> <li>- Verify that the adjustments are eligible (unforeseen, outside of ANSP control and reasonable measures were taken);</li> </ul>		

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- Verify that the carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework.</li> </ul> <p><i>Legal Basis:</i> Implementing Regulation (EU) 2019/317, Recital 36, Art. 22(4), Art. 28(3) and (6), Implementing Regulation (EU) 391/2013 Art. 7(2), Art 14(2).</p>		
B.2.4.2.4	<p><b>PROCEDURES FOR COST ITEMS REFERRED TO IN ARTICLE 28(3) - INTEREST RATES AND UNFORESEEN CHANGES</b></p> <p>Article 28 of the Implementing Regulation (EU) 2019/317 and Article 14 of Regulation (EU) 391/2013 set the rules governing a cost risk sharing mechanism between the airspace users and ANSPs for the RP3. As per Article 28 (3), the general principle (Article 28 (2)) does not apply in case of unforeseen and significant changes in costs resulting from unforeseeable changes in interest rates on loans that finance costs arising from the provision of air navigation services, on the condition that such changes in costs are outside the control of the air navigation service provider and, in the case of cost increases, that the air navigation service provider has taken reasonable measures to manage cost increases during the reference period.</p> <p>This concerns the situation where the ANSP actual costs exceed or fall below the determined costs over a reference period.</p> <p>During the RP2:</p> <ul style="list-style-type: none"> <li>- In cases where over the whole reference period actual costs are lower than the determined costs established at the beginning of the reference period, the resulting difference shall be returned to airspace users through a carry over to the following reference period(s);</li> </ul>	100) The amounts of the adjustments carried over were reconciled with the data from the year that the adjustments originate (from previous and current RP).	
		101) The adjustments are eligible (unforeseen, outside of ANSP control and reasonable measures were taken)	
		102) The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- If the actual costs exceed the determined costs established at the beginning of the reference period, the resulting difference shall be passed on to airspace users through a carry over to the following reference period(s).</li> </ul> <p>Referring to the legal framework of RP3, Art. 28(6):</p> <p>In respect of the unforeseen changes in interest rates the differences between determined costs and actual costs shall be shared as follows:</p> <ul style="list-style-type: none"> <li>- When actual costs fall below the determined costs, the ANSPs or the Member States concerned shall reimburse the resulting difference to airspace users through a reduction of the unit rate in year n+2, in the following reference period or in the following two reference periods if the amounts to be recovered impact the unit rate in a disproportionate manner;</li> <li>- In cases when the actual costs exceed the determined costs the ANSPs or the Member States concerned may apply an increase of the unit rate in year n+2, in the following reference period or in the following two reference periods if the amounts to be recovered impact the unit rate in a disproportionate manner.</li> </ul> <p>The differences between the actual costs and the determined costs in respect to these items shall be identified and explained in accordance with the reporting tables.</p> <p>The NSA is responsible to check the compliance with the above requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>- Reconcile the amounts of the adjustments carried over with the data from the year that the adjustments originate (from previous and current RP);</li> </ul>		

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- Verify that the adjustments are eligible (unforeseen, outside of ANSP control and reasonable measures were taken);</li> <li>- Verify the carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework.</li> </ul> <p><i>Legal Basis:</i> Implementing Regulation (EU) 2019/317, Art. 28(3) and (6), Implementing Regulation (EU) 391/2013 Art. 7. Art. 14(2).</p>		
B.2.4.2.5	<p><b>PROCEDURES FOR COST ITEMS REFERRED TO IN ARTICLE 28(3) - NATIONAL TAXATION LAW OR OTHER UNFORESEEABLE NEW COST ITEMS AND UNFORESEEN CHANGES</b></p> <p>Article 28 of the Implementing Regulation (EU) 2019/317 and Article 14 of Regulation (EU) 391/2013 set the rules governing a cost risk sharing mechanism between the airspace users and ANSPs for the RP3. As per Article 28 (3), the general principle (Article 28(2)) does not apply in case of unforeseen and significant changes in costs resulting from unforeseeable changes in national taxation law or other unforeseeable new cost items not covered in the Performance Plan but required by law.</p> <p>This concerns the situation where the ANSP actual costs exceed or fall below the determined costs over a reference period.</p> <p>During the RP2:</p> <ul style="list-style-type: none"> <li>- In cases where over the whole reference period actual costs are lower than the determined costs established at the beginning of the reference period, the resulting difference shall be returned to airspace users through a carry over to the following reference period(s);</li> </ul>	<p>103) The amounts of the adjustments carried over were reconciled with the data from the year that the adjustments originate (from previous and current RP).</p> <p>104) The actual costs and adjustments are eligible (unforeseen, nature of costs, outside of ANSP control, reasonable measures were taken and required by law).</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- If the actual costs exceed the determined costs established at the beginning of the reference period, the resulting difference shall be passed on to airspace users through a carry over to the following reference period(s).</li> </ul> <p>Referring to the legal framework of RP3, Art. 28(6):</p> <p>In respect of the unforeseen changes in national taxation law or other unforeseeable new cost items, the differences between determined costs and actual costs shall be shared as follows:</p> <ul style="list-style-type: none"> <li>- When actual costs fall below the determined costs, the ANSPs or the Member States concerned shall reimburse the resulting difference to airspace users through a reduction of the unit rate in year n+2, in the following reference period or in the following two reference;</li> <li>- periods if the amounts to be recovered impact the unit rate in a disproportionate manner;</li> <li>- In cases when the actual costs exceed the determined costs the ANSPs or the Member States concerned may apply an increase of the unit rate in year n+2, in the following reference period or in the following two reference periods if the amounts to be recovered impact the unit rate in a disproportionate manner.</li> </ul> <p>The differences between the actual costs and the determined costs in respect to these items shall be identified and explained in accordance with the reporting tables. These costs are unforeseen and significant changes in costs resulting from unforeseeable changes in national taxation law or other unforeseeable new cost items which are not covered in the Performance Plan but required by law.</p> <p>The NSA is responsible to check the compliance with the above requirements. The following procedures are recommended to this end:</p>	<p>105) The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework.</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>– Reconcile the amounts of the adjustments carried over with the data from the year that the adjustments originate (from previous and current RP);</li> <li>– Verify that the actual costs and adjustments are eligible (unforeseen, outside of ANSP control and reasonable measures were taken and required by law);</li> <li>– Verify the carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework.</li> </ul> <p><i>Legal Basis:</i> Implementing Regulation (EU) 2019/317, Art. 28(3) and (6); Implementing Regulation (EU) 391/2013 Art. 7, Art.14.</p>		
B.2.4.3	<p><b>PROCEDURES FOR OTHER REVENUES</b></p> <p>Article 25 of Implementing Regulation 2019/317 foresees that for the calculation of the unit rates, the following revenues of air navigation service providers obtained in year n shall be deducted from the determined costs as 'other revenue':</p> <ul style="list-style-type: none"> <li>– Public funds obtained from public authorities, including financial support from Union assistance programmes;</li> <li>– Revenue obtained from commercial activities, where the Member State or Member States concerned have decided that those revenues are to be deducted;</li> <li>– With regard to terminal air navigation services, revenue obtained from contracts or agreements concluded between air navigation service providers and airport operators, where the Member State or Member States concerned have decided that those revenues are to be deducted.</li> </ul>		

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>The revenues referred in above points need to be deducted from the determined costs as per specific requirements for each category. This is the reason why no specific procedure was defined at this level but that they were specified for each category in the next sections B.2.4.3.1 to B.2.4.3.4.</p> <p><i>Legal Basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Article 25.</p>		
B.2.4.3.1	<p><b>PROCEDURES FOR OTHER REVENUES ART. 25(2)(i) - FINANCIAL SUPPORT FROM UNION ASSISTANCE PROGRAMMES</b></p> <p>Article 25 of Implementing Regulation (EU) 2019/317 foresees that public funds covering staff costs and other operating costs shall be deducted from the determined costs no later than in year n+2. Public funds covering depreciation costs shall be deducted from the determined costs in accordance with the depreciation schedule of the financed asset (duration and annuity). A Member State may decide not to deduct from determined costs an amount related to the administrative costs incurred for the reporting on the funding agreement if these administrative costs are not included in the cost base for charges. Equally, a Member State may decide not to deduct from determined costs public funds received to cover costs not known at the time of drafting the Performance Plan and therefore not included in the cost base for charges. Airspace users shall not be charged for the costs covered by public funds.</p>	106) The value of funded projects in Reporting Table 4 were reconciled with the corresponding amounts in the investment section of the Annual Monitoring Report.	
		107) The amounts granted in Reporting Table 4 were reconciled with the amounts provided in the Grant Agreement.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>The difference between the Union assistance programme funds and the other public funds is that the first one is required to be reported and monitored in Reporting Table 4 while it is optional to include other public funding in this table (but it is not an obligation).</p> <p>The NSA is responsible to check that the ANSP complies with these regulatory requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Reconcile the value of funded projects in Reporting Table 4 with the corresponding amounts (Total capital expenditure (CAPEX) for the project) in the investment section of the Annual Monitoring Report;</li> <li>– Reconcile the amounts granted in Reporting Table 4 with the amounts provided in the Grant Agreement;</li> <li>– Verify the actual amounts received, using also reports and tools provided by the Performance Review Body (PRB) and the European Commission for cross-check of amounts received by the ANSP;</li> <li>– If any, verify the eligibility of the amounts for administrative costs;</li> <li>– Verify the calculations and sums in Reporting Table 4;</li> <li>– Reconcile the amounts of the adjustments carried over were reconciled with the data from the year that the adjustments originate (from previous and current RP);</li> <li>– Verify the carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2 for operating expenditure (OPEX) and as per the depreciation schedule for the CAPEX);</li> <li>– Reconcile the amounts reimbursed to users from Reporting Table 4 with the adjustments carried over in Reporting Table 3 and 2B.</li> </ul>	108) The actual amounts received were verified.	
		109) If any, the eligibility of the amounts for administrative costs was verified.	
		110) The Reporting Table 4 calculations and sums were verified.	
		111) The amounts of the adjustments carried over were reconciled with the data from the year that the adjustments originate (from previous and current RP).	
		112) The carry-over mechanism was applied to the appropriate years in alignment with the	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p><i>Legal Basis:</i> Implementing Regulation (EU) 2019/317, Article 25, Annex IX</p>	<p>regulatory framework (no later than in year n+2 for OPEX and as per the depreciation schedule for the CAPEX).</p>	
		<p>113) The amounts reimbursed to users from Reporting Table 4 were reconciled with the adjustments carried over in Reporting Table 3 and 2B.</p>	
<p><b>B.2.4.3.2</b></p>	<p><b>PROCEDURES FOR OTHER REVENUES ART. 25(2)(i) - OTHER PUBLIC FUNDS OBTAINED FROM PUBLIC AUTHORITIES</b></p> <p>Article 25 of Implementing Regulation 2019/317 foresees that public funds covering staff costs and other operating costs shall be deducted from the determined costs no later than in year n+2. Public funds covering depreciation costs shall be deducted from the determined costs in accordance with the depreciation schedule of the financed asset (duration and annuity). A Member State may decide not to deduct from determined costs an amount related to the administrative costs incurred for the reporting on the funding agreement if these administrative costs are not included in the cost base for charges. Equally, a Member State may decide not to deduct from determined costs public funds received to cover costs not known at the time of drafting the Performance Plan and therefore not</p>	<p>114) The value of funded projects were reconciled with the corresponding amounts in the investment section of the Annual Monitoring Report.</p>	
		<p>115) The amounts granted were reconciled with the amounts provided in the Grant Agreement.</p>	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>included in the cost base for charges. Airspace users shall not be charged for the costs covered by public funds.</p> <p>As mentioned in the above section, while filling in Reporting Table 4 for the Union assistance programme funds is required, it also is allowed for other public funding. The NSA is responsible to check that the ANSP complies with these regulatory requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Reconcile the value of funded projects with the corresponding amounts (Total CAPEX for the project) in the investment section of the Annual Monitoring Report;</li> <li>– Reconcile the amounts granted with the amounts provided in the Grant Agreement;</li> <li>– Verify the actual amounts received;</li> <li>– In any, verify the eligibility of the amounts for administrative costs;</li> <li>– Verify the calculations of the amounts reimbursed;</li> <li>– Reconcile the amounts of the adjustments carried over were reconciled with the data from the year that the adjustments originate (from previous and current RP);</li> <li>– Verify the carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2 for OPEX and as per the depreciation schedule for the CAPEX);</li> <li>– Reconcile the amounts reimbursed to the users with the adjustments carried over in Reporting Table 3 and 2B.</li> </ul> <p><i>Legal Basis:</i></p>	116) The actual amounts received were verified.	
		117) If any, the eligibility of the amounts for administrative costs was verified.	
		118) The calculations of the amounts reimbursed to the users were verified.	
		119) The amounts of the adjustments carried over were reconciled with the data from the year that the adjustments originate (from previous and current RP).	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	Implementing Regulation (EU) 2019/317, Article 25, Annex IX	120) The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2 for OPEX and as per the depreciation schedule for the CAPEX).	
		121) The amounts reimbursed to users were reconciled with the adjustments carried over in Reporting Table 3 and 2B.	
B.2.4.3.3	<p><b>PROCEDURES FOR OTHER REVENUES ART. 25(2)(i) - REVENUE FROM COMMERCIAL ACTIVITIES</b></p> <p>Article 25 of Implementing Regulation 2019/317 foresees that the revenue from commercial activities shall be deducted from the determined costs no later than in year n+2.</p> <p>The following procedures are recommended to verify its proper implementation:</p> <ul style="list-style-type: none"> <li>- Verify the amounts related to the commercial revenues;</li> </ul>	122) The commercial revenue amount was verified.	
		123) The amounts of the adjustments carried over were reconciled with the data from the year the adjustments originate (from	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- Reconcile the amounts of the adjustments carried over with the data from the year the adjustments originate (from previous and current RP);</li> <li>- Verify the carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2);</li> <li>- Reconcile the amounts reimbursed to users with the adjustments carried over in Reporting Table 3 and 2B.</li> </ul> <p><i>Legal Basis:</i> Implementing Regulation (EU) 2019/317, Article 25, Annex IX</p>	<p>previous and current RP).</p> <p>124) The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2).</p> <p>125) The amounts reimbursed to users were reconciled with the adjustments carried over in Reporting Table 3 and 2B.</p>	
B.2.4.3.4	<p><b>PROCEDURES FOR OTHER REVENUES ART. 25 (2) (i) - REVENUE FROM CONTRACTS CONCLUDED BETWEEN ANSPs AND AIRPORT OPERATORS</b></p> <p>Article 25 of Implementing Regulation (EU) 2019/317 foresees that the revenue from contracts concluded between ANSPs and airport operators shall be deducted from the determined costs no later than in year n+2.</p> <p>The following procedures are recommended to this end:</p>	126) The revenue amount was verified.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- Verify the amounts related to the revenues from contracts concluded between ANSPs and airport operators;</li> <li>- Reconcile the amounts of the adjustments carried over with the data from the year the adjustments originate (from previous and current RP);</li> <li>- Verify the carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2);</li> <li>- Reconcile the amounts reimbursed to users with the adjustments carried over in Reporting Table 3 and 2B.</li> </ul> <p><i>Legal Basis:</i> Implementing Regulation (EU) 2019/317, Article 25, Annex IX</p>	127) The amounts of the adjustments carried over were reconciled with the data from the year the adjustments originate (from previous and current RP).	
		128) The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2).	
		129) The amounts reimbursed to users were reconciled with the adjustments carried over in Reporting Table 3 and 2B.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
B.2.4.4	<p><b>PROCEDURES FOR COMMON PROJECTS</b></p> <p>According to Article 22(1), determined costs stemming from new ATM systems and major overhauls of existing ATM systems shall only be included in the cost base where those systems are consistent with the implementation of the European ATM Master Plan, and, in particular, with the common projects referred to in Article 15a(3) of Regulation (EC) No 550/2004 and Regulation (EC) No 1070/2009.</p> <p>According to Art. 15a of Regulation No 550/2004 and Regulation (EC) No 1070/2009, common projects can help with the successful implementation of the ATM Master Plan and which are related to network-related functions, improved the overall performance of air traffic management and air navigation services in Europe. These common projects might be eligible for EU funding within the multiannual financial framework.</p> <p>According to Implementing Regulation (EU) No 409/2013, a common project aims to deploy in a timely, coordinated and synchronised way ATM functionalities that are mature for implementation and that contribute to the achievement of the essential operational changes identified in the European ATM Master Plan. Only ATM functionalities requiring synchronised deployment and contributing significantly to Union-wide performance targets are to be included in a common project.</p> <p>Implementing Regulation (EU) No 716/2014 identifies a first set of ATM functionalities to be deployed in timely, coordinated and synchronised way so as to achieve the essential operational changes stemming from the European ATM Master Plan. These functionalities are described in detail in the annex of the regulation.</p>	130) All common projects from the Performance Plan were included in the investment costs and in Reporting Table 4.	
		131) The eligibility of actual costs of common projects was verified.	
		132) The amounts of the adjustments carried over were reconciled with the data from the year the adjustments originate (from previous and current RP).	
		133) The value of funded projects in Reporting Table 4 were reconciled with the corresponding amounts in the investment section of the Annual Monitoring Report.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>The costs related to the common projects are thus included in the new and existing investments of ANSP while the related grants obtained are included in the revenues received from Union assistance programmes.</p> <p>It is the responsibility of the NSAs to identify which investments are common projects and to ensure that the amount of costs funded by the EU programmes is not charged to users via the calculated unit rate in order to avoid double funding.</p> <p>The NSA is responsible to check the compliance with the above requirements. The following procedures are recommended to this end:</p> <ul style="list-style-type: none"> <li>– Verify that all common projects from the Performance Plan were included in the investment costs and in Reporting Table 4;</li> <li>– Verify the eligibility of actual costs of common projects;</li> <li>– Reconcile the amounts of the adjustments carried over with the data from the year the adjustments originate (from previous and current RP);</li> <li>– Reconcile the value of funded projects in Reporting Table 4 with the corresponding amounts (Total CAPEX for the project) in the investment section of the Annual Monitoring Report;</li> <li>– Verify the amounts granted;</li> <li>– Verify the amounts received, using also reports and tools provided by the PRB and the European Commission for cross-check of amounts received by the ANSP;</li> <li>– If any, verify the eligibility of the amounts for administrative costs;</li> <li>– Verify the Reporting Table 4 calculations and sums;</li> </ul>	134) The amounts granted in Reporting Table 4 were reconciled with the amounts provided in the Grant Agreement.	
		135) The actual amounts received were verified.	
		136) If any, the eligibility of the amounts for administrative costs was verified.	
		137) The Reporting Table 4 calculations and sums were verified.	
		138) The carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2 for OPEX and as per the depreciation schedule for the CAPEX).	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<ul style="list-style-type: none"> <li>- Check that the carry-over mechanism was applied to the appropriate years in alignment with the regulatory framework;</li> <li>- Reconcile the amounts reimbursed to users from Reporting Table 4 with the adjustments carried over in Reporting Table 3 and 2B.</li> </ul> <p><i>Legal basis:</i></p> <p>Regulation (EC) No 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 15a; Regulation (EC) No 409/2013; Implementing Regulation (EC) No 391/2013, Art. 6, Art. 16, Annex VII Point 2(a); Implementing Regulation (EU) 2019/317 Recital 35, Art. 25, 32, Annex II Point 4.2, Annex VII Point 2.2(c), Implementing Regulation (EC) No 716/2014.</p>	139) The amounts reimbursed to users from Reporting Table 4 were reconciled with the adjustments carried over in Reporting Table 3 and 2B.	

### B.3 Conclusion Phase

Ref	Procedures	Factual finding	Result (C / E / N.A.)
B.3.1	<p><b>SUMMARISE DRAFT FINDINGS AND SHARE WITH ANSP</b></p> <p>At the end of the fieldwork, NSAs should prepare the summary of the findings identified and draft the verification report (Please refer to Tool 1 for the template of the verification report).</p> <p>The purpose of sharing a draft verification report is to:</p> <ul style="list-style-type: none"> <li>– formally communicate to the ANSP the findings identified following the verification,</li> <li>– introduce to the ANSPs the impact of the identified exceptions,</li> <li>– introduce to ANSPs the sanctions and the corrective measures imposed for each of the exceptions identified.</li> <li>– provide the opportunity to ANSPs to comment and deliver further supporting evidence.</li> </ul> <p><i>Legal basis:</i></p> <p>Implementing Regulation (EU) 2019/317, Art.28.7, Regulation (EU) 550/2004 as amended by Regulation (EC) No 1070/2009, Article 15, Regulation (EU) 549/2004 Article 9 and Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II, Subpart C, Annex III Subpart B.</p>		
B.3.2	<p><b>FINALISE VERIFICATION REPORT</b></p> <p>Following the provision by the ANSP of their comments and, or additional supporting evidences on the raised findings and recommendations, the NSA need to assess whether the findings will be waived, reviewed or kept including the respective deadlines and corrective measures proposed.</p>	140) The supporting evidence obtained after the execution phase is considered relevant, sufficient and reliable.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>The final verification report , as approved internally by the NSA, should also be communicated formally to the ANSP.</p> <p>The final report should reflect the official response obtained from the ANSPs and if it did or did not impact the findings.</p> <p><i>Legal basis:</i></p> <p>Regulation (EU) No. 550/2004 as amended by Regulation (EC) No 1070/2009, Art.7.3, Art. 7.7, Art. 15, Regulation (EU) No. 549/2004, Art.9 and Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II, Subpart C, Annex III Subpart B.</p>	141) The feedback and the additional supporting evidence provided by the ANSPs confirm the procedures that were previously identified as “Exceptions” in the draft report.	
<b>B.3.3</b>	<p><b>FOLLOW UP ON THE IMPLEMENTATION OF FINDINGS</b></p> <p>While completing the final verification report, part of the job of the NSAs will be to keep track of the final findings and follow them up in the next verification missions if they were properly implemented.</p> <p>A database of the finalised findings, the respective cost category, the raised recommendations by the NSA, the sanctions applied, the foreseen date of the implementation and their status of implementation from the ANSPs, should be fed continuously with information after each verification process.</p> <p>Following up on the implementation of the previous verification process findings is part of the verification process itself.</p> <p>This database should be continuously updated reflecting the actual status with regards to the implementation of the findings. Keeping good records of the verifications performed can help to comply with Art. 7.7 of Regulation (EU) No 550/2004, where it states that national supervisory authorities shall monitor compliance with the common requirements. Additionally, it may also help to answer better the queries from the European Commission in their monitoring review.</p>	142) The NSA will verify that the unit rate submitted to the Commission in November is the same as the one published in the AIP and applied by the CRCO.	

Ref	Procedures	Factual finding	Result (C / E / N.A.)
	<p>After the end of this conclusion phase, the NSA should also verify that the unit rate submitted to the European Commission in November is the same as the one published in the AIP<sup>8</sup> and applied by the CRCO.</p> <p><i>Legal basis:</i></p> <p>Regulation (EU) No. 549/2004, Art.9, Regulation (EU) 550/2004 as amended by Regulation (EC) No 1070/2009, Art. 7.7, Article 15 and Implementing Regulation (EU) 2017/373 Recital 1, Recital 4, Art. 5, Annex II, Subpart C, Annex III Subpart B.</p>		

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<sup>8</sup> Aeronautical Information Publications (AIPs) of each SES Member State are made available through Eurocontrol at <https://www.eurocontrol.int/articles/ais-online>.

## IFRS Considerations

As per Article 12 of the Regulation (EC) No 550/2004, ANSP shall draw up, submit to audit and publish their financial accounts. These accounts shall comply with the International Financial Reporting Standards (IFRS) adopted by the Union pursuant to Commission Regulation (EC) No 1126/2008. Where, owing to the legal status of the service provider, full compliance with the international accounting standards is not possible, the provider shall endeavour to achieve such compliance to the maximum possible extent.

International Financial Reporting Standards (IFRS) set common rules so that financial statements can be consistent, transparent and comparable around the world. IFRS were established to create a common accounting language, so that businesses and their financial statements can be consistent and reliable from company to company and country to country.

This guidance gives additional explanations on IFRS principles and requirements, which the NSAs should take into account when verifying the costs of ANSPs in accordance with Article 12(1) of Regulation 550/2004 as last amended.

The below overview presents the IFRS that are identified to be the most relevant in the context of cost-eligibility verification of items presented in the Reporting Tables:

- IAS 19 - Employee benefits
- IFRS 16 - Leases
- IFRS 15 - Revenues from contract with customers
- IAS 16 - Property, plant and equipment
- IAS 38 - Intangible assets

### **IAS 19 - Employee benefits (more specifically on post-employment benefits)**

The section below considers special considerations, as well as the nuances and details on procedures to be done in relation to IAS 19 - employee benefits (more specifically on post-employment benefits).

#### Special considerations for IAS 19 - Pension

As per Implementing Regulation (EU) 2019/317, Art. 22.4 (a), pension costs shall be calculated using prudent assumptions based on the applicable pension scheme or on national law, as appropriate. Those assumptions shall be specified in the Performance Plan.

As per IAS 19, IFRS establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is actually recorded as a payable.

The main employee benefits covered by IAS 19 are the following:

- Short term benefits, which mainly relate to regular salary, banked vacations, bonuses;
- Post-employment benefits that mainly concern pensions, and

- Other employee benefits which mainly concern medical insurance at retirement, employee benefits provided for the termination of an employee, etc.

The post-employment benefits is usually the area where the accounting treatment used by the ANSP would differ from the requirement of IFRS because of the complexity of the requirement of IAS 19. For this reason, the following section will focus on post-employment benefits.

### *Pension pillar*

Pension schemes are often described by three different pillars which are all covered by the scope of IAS 19:

- the *first pillar* refers to pension schemes that are provided to individuals by the State;
- the *second pillar* refers to pension schemes provided to individuals by the employer (also called occupational schemes);
- the *third pillar* refers to pension schemes that are individually built, therefore without a direct involvement from the State or the employer.

### *Types of pensions*

There are 2 basic types of pension schemes:

1. Defined contribution (DC): The entity pays every year a fixed amount of contributions into a Fund but has no obligation to make additional payments if the Fund has not enough money to pay the benefits later, or for any other reason. If the investment returns are poor, the entity does not have to make any further payments to the employee.
2. Defined benefits (DB): The entity has an obligation to provide benefits to employees (past and current) for an agreed upon amount in the future, once the employee retires. Would the entity build a Fund, it would bear the risk of market fluctuations.

First pillar schemes are not a separate category of pension schemes as per IFRS rules. In the majority of Member States contributing to the first pillar schemes, the plans are considered to be Defined Contribution plans as the burden of the retirement payments falls on the Member State itself and not on the ANSP.

Second pillar schemes are either DB or DC plans offered by the employer, here the ANSP. Each plan has to be analysed in depth to assess whether it is a DB or a DC plan.

- In some cases, minimum guaranteed return on contributions made to an occupational pension plans that are also a defined contribution plans are required by law which creates an obligation for the employer. Those plans would be considered as partly DB plans and partly DC plans under IFRS (for example, in Belgium).
- In some cases, ANSP offering occupational DB plans to their employees could still be relieved of their obligation to meet defined future payments, in which case the plan would be considered a DC plan under IFRS (for example, in Finland and in The Netherlands).

Third pillar schemes are almost exclusively DC plans.

### *Accounting treatments for DC and DB plans*

The following section details the accounting treatment that follows the requirements of IAS 19.

### 1. Accounting for DC plans:

The yearly fixed contributions to the plan are the pension costs of the period that will be included in the income statement. Under IFRS presentation, it will be included in the note "Employee Benefits".

### 2. Accounting for DB plans:

As the entity guarantees an amount of money at retirement to its employees, it has to build today a pension obligation for the future and reassess the yearly cost of that obligation.

IAS 19 requires the entity to use the 'projected unit credit method' to calculate the obligation and the yearly service cost. This method estimates how much the employees have earned for their work in the current and prior periods, to attribute the benefit to the periods of service and to incorporate estimates about demographic and financial variables ("actuarial assumptions") into calculations. Generally, this calculation is done by actuaries.

Defined benefit costs recorded in the income statement under IFRS are different from the contributions really made to the pension fund or the benefits paid out to retirees.

The cost in income statement of a DB scheme mainly consists of two parts:

- The accrual of an additional year of benefits by staff members (the current service cost); and,
- Cost related to the removal of one year of discounting until retirement benefits need to be paid (the interest expense).

In a well-managed fund, it is generally expected that the amount paid into the plan during the year is at least equal to the service cost calculated under the projected unit credit method.

### Nuances and details on procedures to be done

#### 1. Verification of DC plan

For the verification of defined contributions pension schemes, the pension cost calculation is rather straightforward and a reconciliation of costs accounted for with the insurance plan is sufficient.

Special attention should be paid to any returns guaranteed under a DC plan, as it might be *in substance* a DB plan, which requires an adjustment for the purpose of their regulatory reporting.

We are listing below some known differences and attention points between Local GAAP and IFRS; please note that this list is not exhaustive:

- In local GAAP, there might not be a need to obtain an actuarial calculation for the future benefits (for example, in the Netherlands).
- Even if an actuarial calculation is done, it might not use the projected unit credit method which would therefore impact the expense amount.
- The post-employment benefits are usually not subject to an actuarial report under local GAAP and will be paid when incurred; they are however in the scope of IAS 19.

- Remeasurement of obligation has to be recorded in equity under IFRS and not in the P&L, similar to several Local GAAPs.
- Some plans are DC under Local GAAP, but are *in substance* DB for the purpose of IAS 19.

## 2. Verification of DB plans:

For the defined benefits pension schemes, IAS 19 requires the entity to use the 'projected unit credit method' to calculate the service cost (one of the component of expenses related to a defined benefits scheme).

The verification procedures to be performed is different depending on whether of not the ANSP reports its pension cost in the Reporting Tables as per the same accounting framework as their audited financial statements or not.

For ANSPs reporting pension costs as per the same accounting method as in their financial statements, the pension costs will have been validated in the context of the statutory audit of their financial statements. In that case, a reconciliation by the NSA of reported pension costs with the insurance plan is sufficient.

For ANSPs reporting pension costs as per a different accounting methodology than in their financial statements (would they make an adjustment to get closer to the IFRS principles for example), these reported pension costs were not validated in the context of the statutory audit of their financial statements. In that case, the NSA needs to review the actuarial reports and validate the assumptions reasonability:

- Obtain the actuarial evaluation that was done by the ANSP;
- Understand how the service cost is calculated;
- Understand the assumptions used by the actuaries and validate the assumptions reasonability (sensitivity analysis); and,
- An independent actuarial review of the ANSP could be of interest if the amount is very significant or could represent a high risk.

## IAS 20 - Governmental assistance

The section below considers special considerations, as well as the nuances and details on procedures to be done in relation to IAS 20 - Governmental assistance.

### Special considerations for IAS 20 - Governmental assistance

As per Implementing Regulation (EU) 2019/317, Art. 25.3 (a), the following revenues of air navigation service providers obtained in year n shall be deducted from the determined costs as 'other revenue': Public funds obtained from public authorities, including financial support from Union assistance programmes; public funds covering staff costs and other operating costs shall be deducted from the determined costs no later than in year n+2. Public funds covering depreciation costs shall be deducted from the determined costs in accordance with the depreciation schedule of the financed asset (duration and annuity).

As per IAS 20, governmental grants (EU, national funding or any other public fund) are to be reported under other operating income as they do not arise in the normal course of activity and are therefore out of the scope of IFRS 15 (Revenues from contract with customers).

IAS 20 rejects a 'capital approach', under which a grant is recognised outside profit or loss (typically credited directly to equity), in favour of the 'income approach'.

There are 2 main types of governmental assistance:

1. Grant to cover the acquisition of an asset: IFRS allows for two accounting treatments to account for a grant that covers the acquisition of an asset :
  - a. Accounting treatment 1: The assistance directly reduces the cost base of the asset, lowering consequently the future depreciation charges; or,
  - b. Accounting treatment 2: The assistance is deferred into a liability account and recognised over the same period of time as the depreciation of the asset. Attention, usually this is presented in "other operating expense/income" and not directly in reduction of the depreciation charge.

Each of these accounting treatments would have the following impact:

- Accounting treatment 1: This accounting treatment requires some additional information and more verification work from the NSA to identify the historical cost of the asset.
- Accounting treatment 2: This accounting treatment presents the historical cost in a more transparent way, leaving the historical cost of the asset unchanged. Therefore this does not require a lot of additional verification work from the NSA.

## 2. Grant to cover costs (income):

To account for a grant that cover costs, (the grant is provided to reimburse costs incurred or to be incurred) the grant is recognised in the income statement in the periods when the costs are incurred.

### Nuances and details on procedures to be done

- For ANSPs already complying with IFRS, it is highly probable that ANSPs will already present information related to the grant in the notes to their financial statements. However, the following should be considered to ensure proper compliance with the Regulation:
  - Understand which accounting treatment was selected in the case of a grant to cover the acquisition of an asset : accounting treatment 1 or accounting treatment 2
  - If the accounting treatment 1 is selected, obtain additional information to validate the historical cost and the grant (as the historical cost would be reduced by the grant).
  - If the accounting treatment 2 is selected, validate the classification of the recognition of the deferred revenue as it should be in reduction of the depreciation charges.

For ANSPs not complying with IFRS, please refer to the Verification Programme for the necessary verification steps.

## IFRS 16 - Leases

The section below considers special considerations, as well as the nuances and details on procedures to be done in relation to IFRS 16 - Leases.

### Special considerations for IFRS 16 - Leases

As per Implementing Regulation (EU) 2019/317, the following articles are noted:

- Art. 22.4 (b): Operating costs other than staff costs shall include costs incurred for the purchase of goods and services used to provide air navigation services, including outsourced services, material, energy, utilities, rental of buildings, equipment and facilities, maintenance, insurance costs and travel expenses.
- Art. 22.4 (c): Depreciation costs shall include costs related to the total fixed assets in operation for the purpose of providing air navigation services. The value of fixed assets shall be depreciated in accordance with their expected operating life, using the straight-line method applied to the costs of the assets being depreciated.
- Art. 22.4 (d): Where air navigation service providers incur costs from leasing fixed assets, those costs shall not be included in the calculation of cost of capital.

IFRS 16 is a new standard that is effective since 1 January 2019 which introduces a broader definition of leases. The general idea is that every item (tangible or intangible) for which an entity is paying a rental amount would be considered a lease.

IFRS 16 would have the following impact in the ANSP's financial statements:

- At the beginning of the lease, entities would recognise a "right-of-use" asset and a corresponding lease liability of the same amount. This is calculated by discounting the future cash flow using an specific discount rate;
- Reduce the operating cost for the amount of the rental payment (now capitalised in a right-of-use asset);
- Increase the depreciation due to the right-of-use asset;
- Finance costs related to the removal of one year of discounting until the end of the lease (the interest expense).

### Nuances and details on procedures to be done

For ANSPs already complying with IFRS, new requirements from IFRS 16 may complicate the grouping of costs by nature and the calculation of the cost of capital. The two steps below are procedures to be done or at least to be considered as attention points :

- The NSA should enquire as to what accounting treatment the ANSP has selected for the purpose of the reporting tables : IFRS 16, or alternative treatment.
- The NSA should validate that the interest impact of IFRS 16 shall be included in the operating expense to ensure consistency with the calculation of the cost of capital.

For ANSPs not complying with IFRS, the majority of entities using Local GAAP would already be compliant with the EU regulation and include their rental costs in the operating costs.

## **IFRS 15 - Revenues from contract with customers**

The section below highlights special considerations, as well as the nuances and details on procedures to be done in relation to IFRS 15 - Revenues from contracts with customers.

### Special considerations for IFRS 15 - Revenues from contract with customers

As per Implementing Regulation (EU) 2019/317, Art. 25.3 (a), the following revenues of air navigation service providers obtained in year n shall be deducted from the determined costs as 'other revenue': (a) public funds obtained from public authorities, including financial support from Union assistance programmes. Public funds covering staff costs and other operating costs shall be deducted from the determined costs no later than in year n+2. Public funds covering depreciation costs shall be deducted from the determined costs in accordance with the depreciation schedule of the financed asset (duration and annuity).

IFRS 15: Revenue recognition is a new standard that is applicable as from 1 January 2018. As per the requirement of IFRS 15, entities are required to present in their financial statements, the amount of revenue recognised from contracts with customers separately from other sources of revenue.

The main aim of IFRS 15 is to recognise revenue in a way that shows the transfer of goods and services promised to customers in an amount reflecting the expected consideration in return for those goods or services.

To make it systematic, IFRS 15 requires the application of a five-step model for revenue recognition:

- 1) Identifying the contract with the customer;
- 2) Identifying the distinct performances obligations;
- 3) Determining the transaction price;
- 4) Allocating the transition price to the performances obligations; and,
- 5) Recognising the revenues when the performances obligations are met.

An essential characteristic of a performance obligation is the word "distinct". Simply said, distinct means separable or separately identifiable.

The price of the transaction is then allocated to the distinct performance obligations and revenue is recognised when the performance obligation is met either at a point in time or over time.

### Nuances and details on procedures to be done

IFRS 15 does not have a significant impact over the accounting for en route and terminal revenue streams compared to the majority of Local GAAP or to the previous IAS 11.

For ANSPs already complying with IFRS, IFRS 15 is in line with the EU Regulation and does not require adjustment in the reporting of the revenues.

For ANSPs not complying with IFRS, the NSA may ask the ANSPs to provide an IFRS 15 analysis to justify that no adjustment should be made to the reporting tables for en route and terminal charges.

## IAS 16 - Property, plants and equipment

The section below considers special considerations, as well as the nuances and details on procedures to be done in relation to IAS 16 - Property, plants and equipment.

### Special considerations for IAS 16 - Property, plants and equipment

As per Implementing Regulation (EU) 2019/317, Art. 25.4 (c), depreciation costs shall include costs related to the total fixed assets in operation for the purpose of providing air navigation services. The value of fixed assets shall be depreciated in accordance with their expected operating life, using the straight-line method applied to the costs of the assets being depreciated. Historical or current cost accounting shall be applied for the calculation of the depreciation. The methodology used to calculate depreciation costs shall not be altered during the duration of the depreciation and shall be consistent with the cost of capital applied, that is to say nominal cost of capital for historical cost accounting and real cost of capital for current cost accounting.

#### **(a) Recognition of the PPE**

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services and are expected to be used during more than one period.

IAS 16 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- It is probable that future economic benefits associated with the item will flow to the entity; and,
- The cost of the item can be measured reliably.

This recognition principle is applied to all property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct a PPE and costs incurred subsequently replace certain parts.

#### **(b) Initial measurement**

A PPE shall be measured at its cost. The cost of an item of property, plant and equipment comprises:

- Its purchase price, including import duties, non-refundable purchase taxes, after trade discounts and rebates;
- Any costs directly attributed to bringing the asset to the location and the necessary condition for it to be capable of operating in the manner intended by management; and,
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Costs of the different components of a PPE should be accounted for and subsequently depreciated on a stand-alone basis (called the component approach).

Examples of directly attributable costs (i.e. that should be capitalised and then depreciated) are:

- costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment;

- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);
- professional fees.

Examples of costs that are not costs of an item of property, plant and equipment (i.e. that may not be capitalised and then depreciated) are:

- costs of opening a new facility;
- costs of introducing a new product or service (including costs of advertising and promotional activities);
- costs of conducting business in a new location or with a new class of customer;
- costs of staff training;
- administration and other general overhead costs (unless it is directly attributable to the item, which is generally difficult to demonstrate).

#### **(c) Subsequent measurement**

Following the initial measurement of the PPE, the subsequent measurement is done depending on the accounting treatment selected by the entity.

- Accounting treatment 1 - Cost model: The PPE will be valued at its cost less any accumulated depreciation.
- Accounting treatment 2 - Revaluation model: The PPE will be periodically revalued. The revalued amount is its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Regulation allows for the use of “current cost accounting” however, nothing specifies that current cost accounting is an equivalent to fair value.

Additional capitalisation is usually not possible after the asset started to be used. Additional capitalisation can only be done if it is to replace a component of the asset, in which case the original cost and accumulated depreciation would be replaced by the new component

#### **(d) Depreciation**

Depreciation is defined as the systematic allocation of the depreciable amount of an asset over its useful life.

An entity may select from variety of depreciation methods, such as straight-line method, diminishing balance method and the units of production methods.

The useful life is the period over which an asset is expected to be available for use by an entity. Useful life shall be reviewed at least at the end of each financial year.

Examples of useful life per type of PPE :

- Offices or building                      between 10 and 50 years
- Car    between 3 and 5 years

- Office furniture                      between 5 and 10 years
- Computer hardware                  between 2 and 5 years
- Computer software                  between 1 and 3 years<sup>9</sup>

These useful life are presented for information purposes only, as each entity shall establish the expected amount of time it expects to use the asset, based for example on their historical data.

**(e) Impairment**

The core principle in IFRS is that if the carrying amount (book value) exceeds the recoverable amount, the asset is described as impaired. Impairment would be accounted for as an expense in “other operating expense”.

Attention point on assets under construction (AUC):

The recognition principle mentioned above applies also for AUC.

The cost incurred to construct a PPE would be generally accumulated the same way under the majority of local GAAP as there is not too many restriction under IFRS. Once completed the AUC would be transferred to another category of PPE. In both cases, they would be included in the PPE line in the balance sheet and presented separately in the disclosure note.

Under IFRS, there would not be any depreciation as long as the asset stays “under construction”. So that means that the net book of a AUC would always be its cost, unless it’s impaired because it will not be used anymore.

Nuances and details on procedures to be done

There are three main points that are different between the IFRS and the EU Regulation:

1) Definition of useful life:

It is unclear how the requirement of the Implementing Regulation 2019/317 defines the “expected operating life” and might be different from the useful life as per IFRS.

As per IFRS, the useful life is the period over which an asset is expected to be available for use by an ANSP.

2) Component approach:

IFRS requires a component approach in which each component of an asset with a substantial cost in relation to its total cost is depreciated separately (if they have different useful lives).

It is also unclear if the component approach is handled under the Regulation; however, the approach does not seem to be in contradiction with the Regulation.

3) Depreciation method:

The depreciation method is not a choice under the Regulation and the depreciation period is not reviewed at least at each financial year-end.

4) Revaluation model :

The Revaluation mode is not accepted under the Regulation.

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<sup>9</sup> It can be reasonable to expect a longer depreciation period for ATM software than for usual computer software.

For ANSPs already complying with IFRS, the following verification procedures should be performed:

- Capitalisation of PPE and useful life for the depreciation method are already validated by the external auditors based on IFRS requirements.
- Impairment or necessity of impairment is already validated by the external auditors based on IFRS requirements.
- Validate the ANSP's adjustment to adjust for the useful life to align with the expected operating life as defined in the Regulation (if any).
- Validate the ANSP's adjustment to the depreciation method to comply with the Regulation (if any).
- Validate that the no alteration of the depreciation method was done.

For ANSPs not complying with IFRS, the following should be done:

- Capitalisation and depreciation method are validated by the external auditor based on local GAAP requirements.
- Impairment or necessity of impairment is already validated by the external auditors based on local GAAP requirements.
- Validate that the local book depreciation period is in line with the "expected operating life" as defined in the Regulation.
- Validate the adjustment made to comply with the Regulation should they be using the declining depreciation method (or any other).

### **IAS 38 - Intangible assets**

The section below considers special considerations, as well as the nuances and details on procedures to be done in relation to IAS 38 - Intangible assets

#### Special considerations for IAS 38 - Intangible assets

Implementing Regulation (EU) 2019/317 is silent on the treatment of the intangible assets (internally generated or purchased), as well as their related amortisation.

Under IAS 38 - Intangible assets, there is a distinction between separately acquired intangible assets (e.g. purchase of a software package) and internally generated intangible assets (e.g. internal development of the software). The measurement differs for these two types of intangible assets.

IAS 38 requires an entity to recognise an intangible asset, whether separately acquired or internally generated (at cost) if, and only if:

- it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Separately acquired intangible assets can be, for example, software, trademarks or patented technologies.

IAS 38 includes additional recognition criteria for internally generated intangible assets:

Development costs can only be capitalised as internally generated intangible if there is a plan in place demonstrating that the following 6 criteria are met:

- The technological feasibility
- The probable future benefits
- The intention to use or sell the intangible asset
- The ability to use or sell the intangible asset
- The resources to complete the intangible asset, and
- The ability to measure costs.

This implicitly means that all costs incurred during the research phase, prior to the development phase, cannot be capitalised.

These criteria under IFRS are very restrictive and require a thorough analysis to justify that the development costs are eligible for capitalisation. When the criteria are met, all costs directly attributable to the development phase can be capitalise. Usually, these directly attributable costs represent mainly cost of payroll.

Once the asset is ready for use or starts to be commercialised, capitalisation shall stops. Subsequent costs are more difficult to capitalise under IFRS, as they are assumed to only maintain the asset and not improve it as it is already in use.

Examples of directly attributable costs (i.e. that should be capitalised and then depreciated) are:

- costs of materials and services used or consumed in generating the intangible asset;
- costs of employee benefits arising from the generation of the intangible asset;
- fees to register a legal right; and
- amortisation of patents and licences that are used to generate the intangible asset.

The following are not components of the cost of an internally generated intangible asset (i.e. that may not be capitalised and then depreciated):

- selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
- identified inefficiencies and initial operating losses incurred before the asset
- expenditure on training staff to operate the asset.

#### Nuances and details on procedures to be done

The following verification shall be performed by the NSA :

- Obtain an understanding of the project for which the cost are capitalised;

- Obtain a justification that all criteria are met for capitalisation following the requirement of IAS 38;
- Assess the date where the capitalisation stops and amortisation starts and validate that no additional capitalisation happens after the start of the amortisation.