



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

NSAs Coaching

Project developed under DG MOVE Request for Services
(ref. Ares(2019)4503007) under Framework Contract MOVE/E3/2016-401



1. WELCOME

1. Welcome | The Team Supporting You!



European Commission



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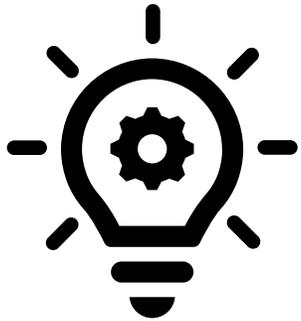
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1. Introduction | Tell us about yourself!



- 1. What is your role?*
- 2. Where are you from?*
- 3. How many years of experience?*

Content



1. Welcome	Basic rules of the virtual coaching session; The Team Supporting You!	09:00 - 09:15
2. Introduction	Context and objective of the project; Milestones of the project; Objectives of the coaching session; Regulatory basis; Structure and Scope	09:15 - 09:45
3.1. Planning	Defining objective and scope; Request information to service provider; Preliminary risk assessment; Sample items to be tested	09:45 - 10:15
3.2. Execution	Verification of costs by nature	10:15 - 11:00
<i>Coffee break</i>		<i>11:00 - 11:15</i>
3.2. Execution	Verification of the bookings of costs on cost centres; verification of allocations	11:15 - 12:00
<i>Lunch</i>		<i>12:00 - 13:00</i>
3.2. Execution	Verification of specific lines, revenues and unforeseen changes	13:00 - 14:45
<i>Coffee break</i>		<i>14:45 - 15:00</i>
3.3. Conclusion	Summarise and share draft findings; finalise verification report; follow-up on findings	15:00 - 15:30
4. Wrap-up	Toolkit of the Verification Programme; Next steps; Q&A	15:30 - 16:00

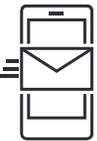
1. Welcome | Rules of the virtual coaching session



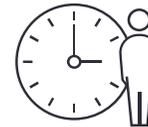
Is anybody there?



Lights, camera,
action!



Leave work at work



Time is gold



Time to shine



Get comfy



2. INTRODUCTION

2. Introduction | Context and objective of the project



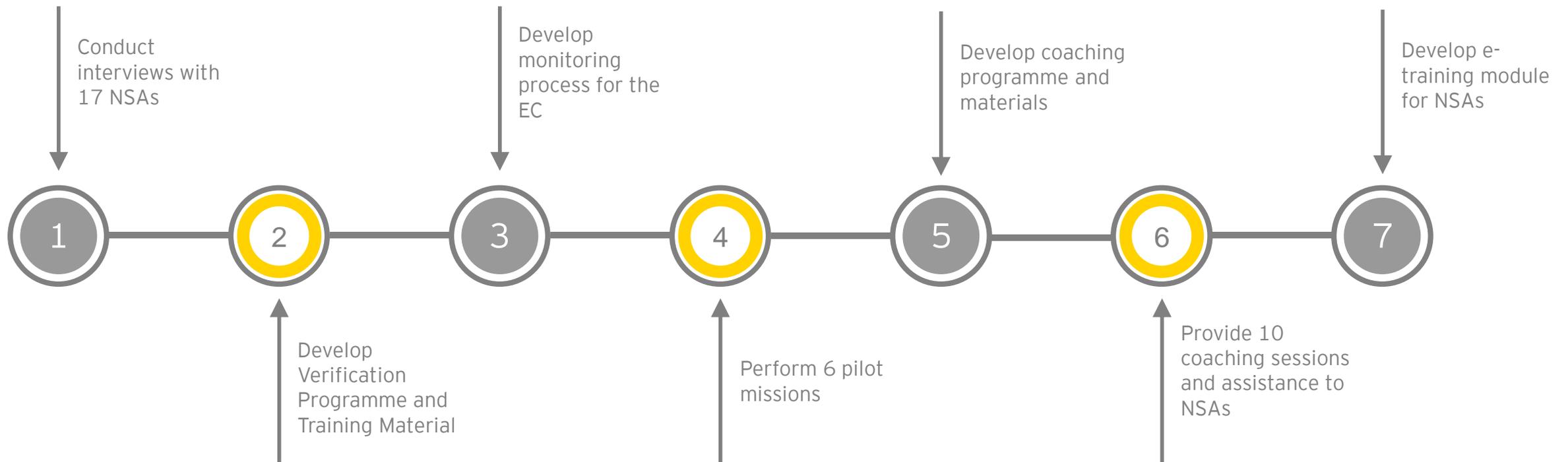
ECA report findings:

- **NSAs do not regularly conduct inspections on important elements of the costs charged to users: eligibility, economy and adequate cost allocation.** [...] the Commission's guidance on cost allocation between en-route and terminal charging zones was insufficient, leading to the risk of cross-subsidization between en-route and terminal navigation services. [Pages 43, 44 of the report]
- **No regular inspections were carried out to provide assurance that only eligible costs are included in the charging scheme nor on whether they were incurred in a cost-efficient manner and adequately allocated between en-route and terminal charging zones.** [Page 27 of the report]
- **The Commission and the NSAs should regularly conduct the inspections set out in the current legislation,** covering in particular the eligibility of costs charged and their allocation between en-route and terminal charging zones. [Recommendation 4 - Ensure inspection coverage of the charging scheme. Pages 43, 44 of the report]

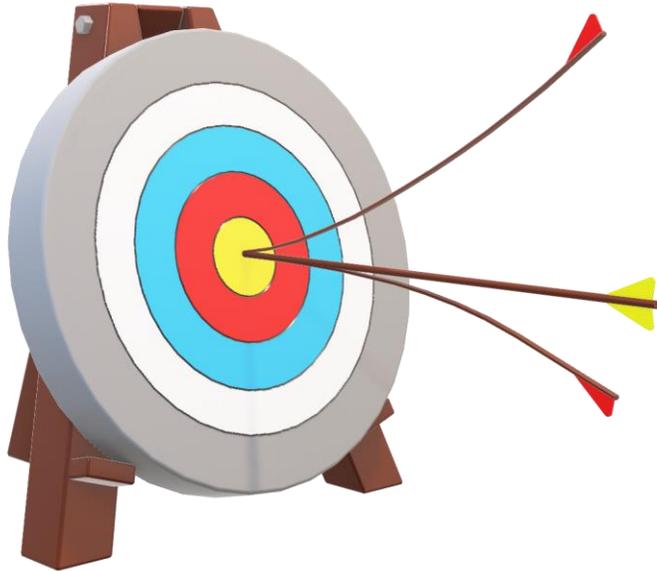
Project Objective

Support the development of a structured and systematic approach for NSAs regarding the verification of the determined and actual ANS costs

2. Introduction | Milestones of the project



2. Introduction | Tell us ...



What are your expectations?

www.menti.com, code 38 71 25 1



2. Introduction | What are the objectives of the coaching session?

Understand the objectives of the Verification Programme and Training Material.

Use efficiently the Verification Programme and Training Material.

Maximise the efficiency of people using the Verification Programme by leveraging all tools developed.

Identify the different steps of the verification process.

Understand all procedures and understand how to apply them.

Foster exchange between NSAs on common challenges faced, procedures and best practices that are applied when performing the verifications.

2. Introduction | Regulatory basis for cost-eligibility verifications to be performed by the NSAs



Regulation (EC) No 550/2004
Regulation (EC) No 1070/2009

Overarching legal basis for cost-eligibility verifications by NSAs

- *Art. 2: the NSAs need to “ensure the appropriate supervision” of the application of the Regulation, and to “organise proper inspections and surveys to verify compliance” with the Regulation.*
- *Art. 15(2): Establishes the principles to be followed when establishing the cost-base for charges.*



Regulation (EU) No 2019/317

Reference for specific elements that need to be subject to the verification performed by NSAs in the context of RP3

- *Recital 29: NSAs should verify that the established determined costs only comprise cost items that are eligible under the performance and charging scheme.*
- *Art. 22(7): NSAs shall verify that the cost bases for en-route and terminal charges are compliant with the requirements of Art. 15(2) of Regulation (EC) No 550/2004 and Regulation (EC) No 1070/2009, and with Art. 22 of the Regulation (EU) 2019/317.*
- *Art. 23: provisions of Art.22 shall apply also to actual costs.*
- *Art. 28: sets the rules governing a cost risk sharing mechanism between the airspace users and ANSPs.*
- *Art. 28(7): NSAs shall elaborate an annex to its annual performance monitoring report in which it reports the verification of the correct application by ANSPs of the provisions of Article 28.*

2. Introduction | Structure and scope of the Verification Programme and the Training Material



Areas addressed

- **Reconciliation** of audited statutory financial statements to the regulated accounts of ANSP;
- **Allocation** between *en route and terminal* and between **charging zones**;
- **Eligibility** of **determined costs** for RP2 and RP3;
- **Verification of actual costs** for RP2 and RP3, in particular costs exempt from cost risk sharing mechanism;
- **Deduction of other revenues** from the determined costs.
- **Verification 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.
- Verification that the performance targets set in the draft performance plan are **consistent with the Union-wide performance targets**.



Sections in the reporting tables addressed

- **Reporting Table 1** (Annex VII of Reg. (EU) 2019/317)
 - **Detail by nature and by service**
 - **Complementary information** (asset base, cost of capital, common projects, investments, Eurocontrol costs)
- **Reporting Table 2** (Annex IX of Reg. (EU) 2019/317)
 - **Differences between determined and actual costs** referred to in Art. 28(4) to 28(6)
 - **Other revenues** - Union assistance programmes and other public funding
- **Reporting Table 3** (Annex IX of Reg. (EU) 2019/317)
- **Reporting Table 4** (Annex IX of Reg. (EU) 2019/317)

⚠ Not within scope:

- Interpretation of the Regulation
- Interdependencies with other KPIs
- Traffic risk sharing, traffic adjustments, financial incentive schemes and most of the other adjustments
- Calculation of the unit rates



3.1 PLANNING

3.1 Planning Phase | Define objective and scope



Applicable regulation:

- ▶ Regulation (EU) 2019/317
 - ▶ Article 22: “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”
 - ▶ Article 28: “[A] **cost risk sharing mechanism shall be applied [...] Differences between determined costs included in the performance plan and actual costs shall be shared between air navigation service providers and airspace users**”
- ▶ Regulation (EC) No 550/2004
 - ▶ Article 12: “Air navigation service providers, whatever their system of ownership or legal form, **shall draw up, submit to audit and publish their financial accounts**. These accounts **shall comply with the international accounting standards** adopted by the European Union [...] or to the maximum possible extent.



Determined

▶ Objective:

The compliance of the ANSPs’ practices and their reported costs with the criteria and principles outlined as regards ANS costs in the SES regulatory framework.

▶ Scope:

An in-depth review of all the elements of the cost base ahead of the start of the next Reference Period, considering that the determined costs are used to establish, as part of the Performance Plans, the stable cost-base for the charges to airspace users during the five-year period.



Actual

▶ Objective:

The compliance of the ANSPs’ practices and their reported costs with the criteria and principles outlined as regards ANS costs in the SES regulatory framework.

▶ Scope:

*An annually in-depth review of all the elements of the cost base which form the base line value for the upcoming reference period.
The unit rate is calculated starting from the determined costs in nominal terms, however, the reported annual costs form the basis for the determined costs in the following period.*

3.1 Planning Phase | Request information to the Service Provider

NSAs to access documents

- Obtain from the ANSPs under their supervision, **relevant data necessary** for the purpose of **ensuring the proper implementation and oversight of the SES Regulations**.
- **ANSPs should facilitate inspections and surveys carried out by the NSAs** for the purpose of monitoring the implementation of the performance and charging schemes.
- **A set of tools is developed to facilitate the performance of the verification, including a standardised list of documentation to be requested from the ANSP and a dedicated Pre-fieldwork Questionnaire** in order to facilitate the gathering of the preliminary information.



Standard list of documents to be requested

- List of the main documents required for a cost verification;
- **Part of the tools developed** for assisting NSAs in their cost verifications;
- **This list cannot be exhaustive and fully applicable to all ANSPs** (due to the differences amongst ANSPs' accounting standards, technologies and methodologies);
- **NSA should tailor this list** to their ANSPs specificities.



Pre-fieldwork Questionnaire to be filled in by the ANSP

- A tool to be used **during the Planning phase** of the verification process;
- To be **filled in by ANSP, for the collection of preliminary information**, mainly as regards changes in ANSP legal structure, operations and methodologies;
- Developed to **support the NSA in its initial analysis of the numbers** reported by the ANSP in the reporting tables and to **perform a preliminary risk assessment**.



How will they be communicated?

The above mentioned tools should be sent out together with the Letter for the announcement of the verification.

3.1 Planning Phase | Concept of preliminary risk assessment and Sampling



Risk assessment and sample size implication

- Risk assessment is performed to help identify risks related to the entities and, or transactions;
- In order to identify these risks, different elements are considered during the planning phase, which include the use of professional judgement on internal controls, as well as previous audit reports (some examples can be seen on the scheme on the right side);
- Determining the sample size aims to respond to those identified risks;
- The risk assessment will impact the sample size in terms of number of items to be tested.

Risk resulting from ANSPs environment & NSA's previous experiences

- ▶ Unusual pressure on management;
- ▶ Nature of the business;
- ▶ Factors affecting the industry;
- ▶ Risk related to fraud;
- ▶ Changes in management during the period;
- ▶ Complexity of the organisation.

Work of internal and, or statutory auditors and, or previous NSA audit/ verification reports

- ▶ Qualified or non qualified audit opinion;
- ▶ Internal audit report;
- ▶ Previous NSA's audit report;
- ▶ Previous NSA's verification report.

Professional Judgement



The higher the risk level, the higher the number of items to be verified

3.1 Planning Phase | Perform preliminary risk assessment



Determined

- **The critical elements for achieving the performance targets;**
- **General checks on the overall quality of the submitted reporting tables, considering the integrity of the formulas and that no error message is showing;**
- **Large variations between the determined costs by nature and the actual costs of the previous RP (or the baseline) and insufficient explanatory information in the Performance Plans;**
- **Large variations in the yearly actuals of the previous RP with a peak in the year before the last year of the RP;**
- **The modified or unmodified audit opinion.**
- **The value of funded projects (i.e. common projects, public funding and Union assistance programmes) in Reporting Table 4 does not correspond with the amounts (total CAPEX for the project) in the investment section of the Annual Monitoring Report;**
- **Weak or insufficiently elaborated allocation methodology for the allocation of costs between en route and terminal and between charging zones, not revised since the previous RP;**
- **Specific legal considerations as regards ownership of assets used for providing ANS, etc.**



Actual

- **General checks on the overall quality of the submitted reporting tables, considering the integrity of the formulas and that no error message is showing;**
- **The report of costs exempt under the cost sharing mechanism (Art.14 of Regulation (EU) 391/2013) from RP2;**
- **The underlying breakdowns and information as regards Table 4 (Annex IX of Regulation (EU) 2019/317);**
- **The organisational set-up of the ANSP and, for ANSPs that are public entities, any changes in the institutional arrangements or relevant governing legislation;**
- **Results from NSA verifications of cost-eligibility from previous RPs;**
- **Overall replies provided by the ANSP to the Pre-fieldwork Questionnaire.**

Other cases?

The above mentioned cases are a non exhaustive list of examples to validate the Preliminary Risk Assessment. It works in combination with the respective tool built as a template to help the NSAs in documenting their Risk Assessment.

3.1 Planning Phase | Sample items to be tested



Determined

- **Use of professional judgement** on internal controls as well as other auditors' reports
- **Review the costs by nature declared** by the ANSPs and the service providers and **their variances compared with the previous years.**
- **Identify the population of cost items included in the reporting tables:**
 - Review the detailed breakdown of cost items per each cost by nature to each service provider.
 - Reconcile the total breakdown with the total amount declared by the service providers per each cost by nature.
 - Identify the total number of items per each cost by nature.
 - Concerning staff cost category, collect the detailed cost breakdown per person (if possible).
- **Determine the sample size:**
 - **Sort the detailed item list** per each cost by nature **from the largest amount to the smallest** and start selecting from the highest value.
 - **Select the 10 highest value items or 10% of the total number of items per cost category, whichever is the highest.** If population is less than 10 items, then full population will be tested.
 - **When an ANSP has been considered as high risk, then high risk items need to be systematically added in the sample.**



Actual

- For the **verification of the eligibility of costs** => **same steps as determined costs.**
- For the **verification of the adjustments** resulting from the unforeseen changes reported as per the requirements of the Article 28 of the Regulation (EU) 2019/317 and reflected in Reporting Table 2B.
 - **The NSAs can verify those adjustments incurred that have significant variance between the determined and the actual costs.**
- For the **verification of the cost allocations:**
 - 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.**
- At this point in time, **the final information is not yet available**, however, the **NSAs can manage their fieldwork time efficiently by verifying the information in hand.**
- 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.**
 - As such, there will be **no need for the NSAs to sample the cost allocations** to be verified.



3.2 EXECUTION

3.2 Execution Phase | Verification of costs by nature - Transversal to all cost categories by nature



Determined



Actual

Regulation (EU) 2019/317 and (EC) No 550/2004

- ▶ **Article 10.2:** [...] The baseline value for **determined costs** shall be estimated by using the actual costs available for the preceding RP and shall be adjusted to take account of latest available cost estimates, traffic variations and their relation to costs.
- ▶ **Article 22.1:** 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.
- ▶ **Article 12.2:** In all cases, air navigation service providers shall **publish an annual report and regularly undergo an independent audit.**

Procedures Determined Costs

- Verify that the ANSP has **separate accounts** for ANS and non-ANS services. Costs that are not related to the provision of ANS should not be included in the cost base for setting the unit rate;
- Verify the **consistency** between the determined costs included in the Reporting tables and the ANSP business plan (if any);
- 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;
- **Reconcile the values used** for the determined costs baseline with the actual costs for the preceding reference period;
- Check that the determined costs do not include elements that are specifically **not allowed** under the Service Provision Regulation;
- Verify the **restructuring costs** included in the Performance Plan against their definition.

Procedures Actual Costs

- Verify that the ANSP's financial statements were subject to an **independent financial audit and were published**;
- 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 or not incurred in the year should not be included in the cost base for setting the unit rate (e.g. asset write-off);
- **Review the grouping/mapping of the ANS costs** into the cost by nature categories in the reporting tables;
- **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;
- Check that the reported costs do not include elements that are specifically **not allowed** under the Service Provision Regulation, such as the cost of penalties imposed by Member States and the cost of any corrective measures imposed by the Framework Regulation.

3.2 Execution Phase | Verification of costs by nature - Staff costs



Determined



Actual

Regulation (EU) 2019/317

- *Article 22.4: [S]taff costs shall include gross remuneration, overtime payments, and employers' contributions to social security schemes, as well as pension costs and costs of other benefits.*

Procedures Determined Costs

- Verify that the only elements included in the staff costs reported in the reporting tables are the ones **listed in the regulatory framework**;
- Check that only the **ANS related** staff costs were reported in the reporting tables;
- Verify that all adjustments performed to the staff costs rely on **sound assumptions**;
- Verify that the **adjustments are correctly reflecting the assumptions**;
- Perform an in-depth **verification of pension costs**, leveraging the performance plan details and any actuarial report available. 

Procedures Actual Costs

- 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;
- 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;
- 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).

3.2 Execution Phase | Verification of costs by nature - Operating costs other than staff costs



Determined



Actual

Regulation (EU) 2019/317

- ▶ **Article 22.4:** [O]perating 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.

Procedures Determined Costs

- Verify that the only elements included in the other operating cost reported in the reporting tables are the ones **listed in the regulatory framework**;
- Check that only the **ANS related** other operating costs were reported in the reporting tables;
- Verify that all adjustments performed to the other operating costs rely on **sound assumptions**;
- Verify that the **adjustments are correctly reflecting the assumptions**.

Procedures Actual Costs

- Verify that the only elements included in the other operating cost reported in the reporting tables are the ones **listed in the regulatory framework**;
- For a sample of other operating costs, check whether the costs have been **correctly shared between ANS and non-ANS**.

3.2 Execution Phase | Verification of costs by nature - Depreciation



Determined



Actual

Regulation (EU) 2019/317

- ▶ **Article 22.4:** [D]epreciation costs shall include costs related to the total fixed assets in operation for the purpose of providing air navigation services. [They] 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.

Procedures Determined Costs

- Verify that the only depreciation cost included in the reporting tables are the ones **allowed by the regulatory framework**;
- Check that only the **ANS related** depreciation costs were reported in the reporting tables.
- Verify that the value of fixed assets is being depreciated in accordance with their **expected operating life**, using the **straight-line method**.
- Verify that the depreciation **methodology used was consistent** with the one applied to the cost of capital calculation.
- Verify that the methodology used to calculate depreciation costs was **not altered** during the duration of the depreciation.
- Verify that all adjustments performed to the other operating costs rely on **sound assumptions**;
- Verify that the **adjustments are correctly reflecting the assumptions**.

Procedures Actual Costs

- 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;
- 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;
- Verify that the value of fixed assets was depreciated in accordance with their expected **operating life**, using the **straight-line method**;
- Verify that the depreciation **methodology used was consistent** with the one applied to the cost of capital calculation;
- Verify that the methodology used to calculate depreciation costs was **not altered** during the duration of the depreciation.

Green: Common to determined and actual costs

Blue: Specific to determined or actual costs

Please refer to section 'IFRS considerations' of the Verification Programme

3.2 Execution Phase | Verification of costs by nature - Cost of capital



Determined



Actual

Regulation (EU) 2019/317

- ▶ **Article 22.4:** [C]ost of capital shall be equal to the **product of [..]:**
 - ▶ (i) 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,**
 - ▶ (ii) 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.

Procedures Determined Costs

- **Verify the eligibility and accuracy of all components** of the cost of capital calculation by **verifying the assumptions** taken for each of them;
- Validate the cost of capital **calculation**;
- Verify that **methodology** applied to the cost of capital is **consistent** with the one used to calculate depreciation costs;
- Perform an in-depth **verification of interest rate and costs**, leveraging the Performance Plan details.

Procedures Actual Costs

- **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;
- Validate the cost of capital **calculation**;
- Verify that **methodology** applied to the cost of capital is **consistent** with the one used to calculate depreciation costs;
- Perform an in-depth **verification of interest rate and costs**.

3.2 Execution Phase | Verification of costs by nature - Exceptional costs



Determined



Actual

Regulation (EU) 2019/317

- ▶ *Article 22.4: [E]xceptional costs shall consist of non-recurring costs relating to the provision of air navigation services, including any non-recoverable taxes and customs duties.*

Procedures Determined Costs

- Verify that the only elements included in the exceptional costs reported in the reporting tables are the ones **allowed by in the regulatory framework**;
- Check that only the **ANS related** exceptional costs were reported in the reporting tables;
- Verify that all adjustments performed to the exceptional costs rely on **sound assumptions**;
- Verify that the **adjustments are correctly reflecting the assumptions**.

Procedures Actual Costs

- Verify that the only elements included in the exceptional costs reported in the reporting tables are the ones **allowed by the regulatory framework**;
- Verify that the costs reported under the exceptional costs are **related to the provision of air navigation services**.

Coffee break ?



3.2 Execution Phase | Verification of the bookings on cost centres



Determined



Actual

Regulation (EU) 2019/317

- ▶ Article 4 requires transparency in the reporting, which is highly supported by a well-structured set of cost centres.

Procedures Determined Costs

Cost centres are only used for actual costs in the ANSP Finance/controlling software. Hence, no verification procedure is required for determined costs.

Procedures Actual Costs

- Review and validate the **structure of cost centres**;
- Review and validate the **procedure(s) for the booking of costs** on cost centres;
- Test the **correct implementation of the procedure for the booking** of costs on cost centres.

3.2 Execution Phase | Verification of allocations



Determined



Actual

Regulation (EC) No 550/2004 and Regulation (EC) No 1070/2009

- ▶ **Article 15.2:** *[C]ross-subsidy shall not be allowed between en-route services and terminal services. 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.*
- ▶ **Article 22.1:** *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.*

Procedures Determined Costs

- 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 ;
- Verify that the allocation methodology is **correctly reflected** in the costs by service and costs by charging zone.

Procedures Actual Costs

- Obtain the description for the allocation process the ANSP has in place and **validate the overall allocation model logic**;
- For complex allocation models, **reconcile the total costs from the sources and destinations** for each allocation step;
- For a **sample** of allocation steps:
 - **Reconcile** the costs from the allocation sources and destinations;
 - Review and validate the **causality** (i.e. logical relationship) between the **allocation** sources and destinations;
 - Review and validate the **causality of the driver/allocation key/criteria** used for the allocation from the allocation sources to destinations;
 - Reconcile the **driver/allocation key/criteria quantities** used for allocations with source information.

Lunch !



3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Inflation



Determined



Actual

Regulation (EU) 2019/317

- ▶ *Article 26: [...], the **determined costs** [...] 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.*

Procedures Determined Costs

- 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.

Procedures Actual Costs

- Reconcile the amounts of the **adjustments carried over** with the data from the year that the adjustments originate (from previous and current RP);
- Depending on the cost accounting method used (historical or current), **verify the cost being subject to inflation adjustments**;
- 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.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Cost items referred to in Article 28(3)



Determined



Actual

Regulation (EU) 2019/317

- ▶ **Article 28 (2):** Where, over the whole reference period, **actual costs fall below (or exceed) the determined costs**, the air navigation service provider or the Member State concerned **shall retain (or cover) in full the resulting difference**;
- ▶ **Article 28 (3): Paragraph 2 does not apply if the differences between determined costs and actual costs result from at least one of the following changes:** [...]
- ▶ **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.

Procedures Determined Costs

No general verification procedures apply to these specific cost items. The specific procedures for each cost item are covered in their dedicated sections

Procedures Actual Costs

- **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**).

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Cost items referred to in Article 28(3) - Costs of new and existing investments and unforeseen changes



Determined



Actual

Regulation (EU) 2019/317

- ▶ **Article 28.4:** [...] the differences between determined costs and actual costs shall be shared as follows:
- ▶ (a) where, [...] actual costs **fall below** the determined costs, the ANSP or the MS concerned shall reimburse the resulting difference to airspace users, through a reduction of the unit rate in **year n+2 or in the following RP**, unless, based on a detailed justification of the ANSP, the NSA decides, after **consultation** with airspace users' representatives, that the ANSP shall not reimburse a part of the resulting difference;
 - ▶ (b) where, [...] actual costs **exceed** the determined costs by **not more than 5 %**, MS may decide that the resulting difference is recovered from airspace users by the ANSP or the MS concerned, through an increase of the unit rate in **year n+2 or in the following RP**, subject to the **approval** by the NSA of a detailed justification provided by the ANSP in particular as regards the need to increase capacity and after consultation with airspace users' representatives.

Procedures Determined Costs

- **Verify the eligibility** of determined costs included;
- **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**.

Procedures Actual Costs

- Reconcile the amounts of the **adjustments carried over** with the data from the year that the adjustments originate (from current RP);
- **Verify the eligibility** of costs included **and adjustments** (unforeseen, nature of costs, threshold);
- The **carry-over mechanism** was applied to the appropriate years in alignment with the regulatory framework and with the required approval and consultation;
- Verify and reconcile the values provided for the **actual new and existing investments costs with the costs by nature**;
- 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.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Cost items referred to in Article 28(3) - Costs of competent authorities, qualified entities and Eurocontrol and unforeseen changes



Determined



Actual

Regulation (EU) 2019/317 and (EC) No 550/2004

- ▶ *Article 22.1: Member States may decide to include in the cost base [...]: (a) **determined costs** incurred by competent authorities, (b) [...] by the **qualified entities** referred to in Article 3 of Regulation (EC) No 550/2004, and (c) **determined costs** stemming from the Eurocontrol International Convention [...].*
- ▶ *Article 28.5: [...] the **differences between determined costs and actual costs** shall be shared as follows:*
 - ▶ (a) where, over a calendar year, **actual costs fall below** the **determined costs** established for that calendar year, MS shall reimburse the resulting difference to airspace users through a reduction of the unit rate in **year n+2**;
 - ▶ (b) where, over a calendar year, **actual costs exceed** the **determined costs** established for that calendar year, MS shall recover the resulting difference from airspace users through an increase of the unit rate in **year n+2**.

Procedures Determined Costs

- Verify that the authorities and entities for which costs are included in the cost base **fulfil all the requirements** set out in the Regulation;
- Verify the **eligibility of the determined costs** included in the cost base.

Procedures Actual Costs

- Reconcile the amounts of the **adjustments carried over** with the data from the year that the adjustments originate (from current RP);
- Verify that the authorities and entities for which costs are included in the actual costs **fulfil all the requirements** set out in the Regulation;
- Verify the **eligibility** of actual costs and related adjustments;
- Verify the **carry-over mechanism** was applied to the appropriate years in alignment with the regulatory framework and with the required approval and consultation.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Cost items referred to in Article 28(3) - Pension costs and unforeseen changes



Determined



Actual

Regulation (EU) 2019/317

- ▶ **Article 28.3:** [...] *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 ANSP** and, in the case of **cost increases**, that the ANSP has taken **reasonable measures** to manage cost increases during the RP.
- ▶ **Article 28.6:** [...] *the differences between determined costs and actual costs shall be shared as follows:*
 - ▶ (a) where [...] **actual costs fall below** the **determined costs**, the ANSP or the MS concerned **shall reimburse the resulting difference to airspace users through a reduction of the unit rate in year n+2, in the following RP or in the following two RP** if the amounts to be recovered impact the unit rate in a disproportionate manner;
 - ▶ (b) where...**actual costs exceed** the **determined costs**, MS may decide that the resulting difference is recovered from airspace users by the ANSP or the MS concerned, **through an increase of the unit rate in year n+2, in the following RP or in the following two RP** if the amounts to be recovered impact the unit rate in a disproportionate manner.

Regulation (EU) No 391/2013

- ▶ **Article 14.2 (d) & (e):**
 - ▶ Where [...] **as a result of deducting costs** from the scope of paragraph 2(a), **actual costs are lower/exceed** than the **determined costs** established at the beginning of the RP, the resulting difference shall be **returned/ passed on** to airspace users through a carry over **to the following RP(s)**.

Procedures Determined Costs

The verification of determined pension costs is fully covered in the "Procedures for Staff Costs". No additional procedures needed.

Procedures Actual Costs

- Reconcile the amounts of the **adjustments carried over** with the data from the year that the adjustments originate (from previous and current RP);
- Verify that the **adjustments are eligible** (unforeseen, outside of ANSP control and reasonable measures were taken);
- Verify that the **carry-over mechanism** was applied to the appropriate years in alignment with the regulatory framework.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Cost items referred to in Article 28(3) - Interest rates and unforeseen changes



Determined



Actual

Regulation (EU) 2019/317

- ▶ Article 28.3 and Article 28.6 - *The same requirement as for the pension costs are applicable to these costs.*

Regulation (EU) No 391/2013

- ▶ Article 14.2 (d) & (e) - *The same requirement as for the pension costs are applicable to these costs.*

Procedures Determined Costs

The verification of determined interest rates is fully covered in the "Procedures for Cost of Capital". No additional procedures needed.

Procedures Actual Costs

- Reconcile the amounts of the **adjustments carried** over with the data from the year that the adjustments originate (from previous and current RP);
- Verify that the **adjustments are eligible** (unforeseen, outside of ANSP control and reasonable measures were taken);
- Verify that the **carry-over mechanism** was applied to the appropriate years in alignment with the regulatory framework.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Cost items referred to in Article 28(3) - National law or other unforeseeable new cost items and unforeseen changes



Determined



Actual

Regulation (EU) 2019/317

- ▶ Article 28.3 and Article 28.6 - *The same requirement as for the pension costs are applicable to these costs.*

Regulation (EU) No 391/2013

- ▶ Article 14.2 (d) & (e) - *The same requirement as for the pension costs are applicable to these costs.*

Procedures Determined Costs

- **Verify** that the **assumptions** described in the Performance Plans are accurate;
- **Reconcile** the **determined costs presented in the Performance Plan** with the detail of the **reporting tables**.

Procedures Actual Costs

- Reconcile the amounts of the **adjustments carried over** with the data from the year that the adjustments originate (from previous and current RP);
- Verify that the **actual costs and adjustments are eligible** (unforeseen, outside of ANSP control and reasonable measures were taken and required by law);
- Verify the **carry-over mechanism** was applied to the appropriate years in alignment with the regulatory framework.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Other Revenues - Financial support from Union Assistance Programmes



Determined



Actual

Regulation (EU) 2019/317

- ▶ **Article 25.3:** [...] 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).

Procedures Determined Costs

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.

Procedures Actual Costs

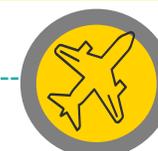
- Reconcile the **value of funded projects** with the corresponding amounts (total CAPEX for the project) in the **investment section** of the Annual Monitoring Report;
- Reconcile the **amounts granted in Reporting Table 4** with the amounts provided in the Grant Agreement;
- Verify the **actual amounts received**, using also reports and **tools provided by the PRB and the European Commission** for cross-check of amounts received by the ANSP;
- If any, verify the **eligibility of the amounts for administrative costs**;
- Verify the calculations and sums in Reporting Table 4;
- 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);
- 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);
- Reconcile the **amounts reimbursed to users** from Reporting Table 4 with the adjustments carried over in Table 3 and 2B.

Note 1: Financial support from Union Assistance Programmes has to be included in Reporting Table 4 while it is only optional (but **advised**) for other public funding.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Other Revenues - Other public funds from Public Authorities



Determined



Actual

Regulation (EU) 2019/317

- ▶ Article 25.3: [...] 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).

Procedures Determined Costs

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.

Procedures Actual Costs

- Reconcile **the value of funded projects** with the corresponding amounts (total CAPEX for the project) in **the investment section** of the Annual Monitoring Report;
- Reconcile the **amounts granted** with the amounts provided in the Grant Agreement;
- Verify the **actual amounts received**;
- If any, verify the **eligibility of the amounts for administrative costs**;
- Verify the **calculations of the amounts reimbursed**;
- 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);
- 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);
- Reconcile the **amounts reimbursed to users** with the adjustments carried over in Reporting Table 3 and 2B.

Note 1: Financial support from Union Assistance Programmes has to be included in Reporting Table 4 while it is only optional (but **advised**) for other public funding.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Other Revenues - Revenue from commercial activities



Determined



Actual

Regulation (EU) 2019/317

- ▶ **Article 25.3:**
 - ▶ Revenue obtained from **commercial activities**, *where the MS concerned have decided* that those revenues are to be deducted.
 - ▶ The revenue [...] shall be **deducted from the determined costs no later than in year n+2**.
- ▶ **Article 29.6:** Member States may decide to **set the unit rate [...] a level lower** than the unit rate calculated in accordance with Article 25(2).

Procedures Determined Costs

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.

Procedures Actual Costs

- Verify the amounts related to the **commercial revenues**;
- Reconcile the amounts of the **adjustments carried over** with the data from the year that the adjustments originate (from previous and current RP);
- Verify the **carry-over mechanism** was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2);
- Reconcile the **amounts reimbursed to users** with the adjustments carried over in Reporting Table 3 and 2B.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Other Revenues - Revenue from contracts concluded between ANSPs and Airport Operators



Determined



Actual

Regulation (EU) 2019/317

▶ **Article 25.3:**

- ▶ [...] **revenue obtained from contracts or agreements** concluded between air navigation service providers and **airport operators**, **where the MS concerned have decided** that those revenues are to be deducted.
- ▶ The revenue [...] **shall be deducted from the determined costs no later than in year n+2.**

Procedures Determined Costs

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.

Procedures Actual Costs

- Verify the amounts related to **the revenues from contracts concluded between ANSPs and airport operators**;
- Reconcile the amounts of the **adjustments carried over** with the data from the year that the adjustments originate (from previous and current RP);
- Verify the **carry-over mechanism** was applied to the appropriate years in alignment with the regulatory framework (no later than in year n+2);
- Reconcile the **amounts reimbursed to users** with the adjustments carried over in Reporting Table 3 and 2B.

3.2 Execution Phase | Verification of specific lines, revenues and unforeseen changes - Common projects



Determined



Actual

Applicable Regulations

- ▶ *Regulation (EU) 409/2013, Regulation (EU) 2014/716, Regulation (EU) No 550/2004, Regulation (EC) No 1070/2009 and Regulation (EU) 2019/317 make the regulatory framework for the common projects, detailing their objectives, content and eligibility requirements.*

Procedures Determined Costs

- Verify that only **common projects from the Performance Plan** were included in the determined investment costs;
- Verify the **eligibility** of determined costs included;
- Verify the updated investment plan in case an ANSP intends to **add, cancel or replace major investments** during the reference period.

Procedures Actual Costs

- Verify that **all common projects from the Performance Plan** were included in the investment costs and in Reporting Table 4;
- Verify the **eligibility** of actual costs of common projects;
- Reconcile the amounts of the **adjustments carried over** with the data from the year that the adjustments originate (from previous and current RP);
- 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;
- Verify the **amounts granted**;
- 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;
- If any, verify the eligibility of the amounts for **administrative costs**;
- Verify the **Reporting Table 4 calculations and sums**;
- Check that the **carry-over mechanism** was applied to the appropriate years in alignment with the regulatory framework;
- Reconcile the **amounts reimbursed to users** from Reporting Table 4 with the adjustments carried over in Reporting Table 3 and 2B.

Coffee break ?





3.3 CONCLUSION

3.3 Conclusion Phase | Make sure you

Summarise findings and share with ANSP

- Formal document sharing findings, called draft report.
- Opportunity for ANSPs to provide comments and/or further evidence.

Finalise Verification Report

- ANSPs provide their comments and/or additional documents. NSA to verify:
 - Additional supporting evidence is relevant, sufficient and reliable;
 - Additional supporting evidence confirm the procedures previously marked as "Exception" in the draft report.

Follow-up on implementation of findings

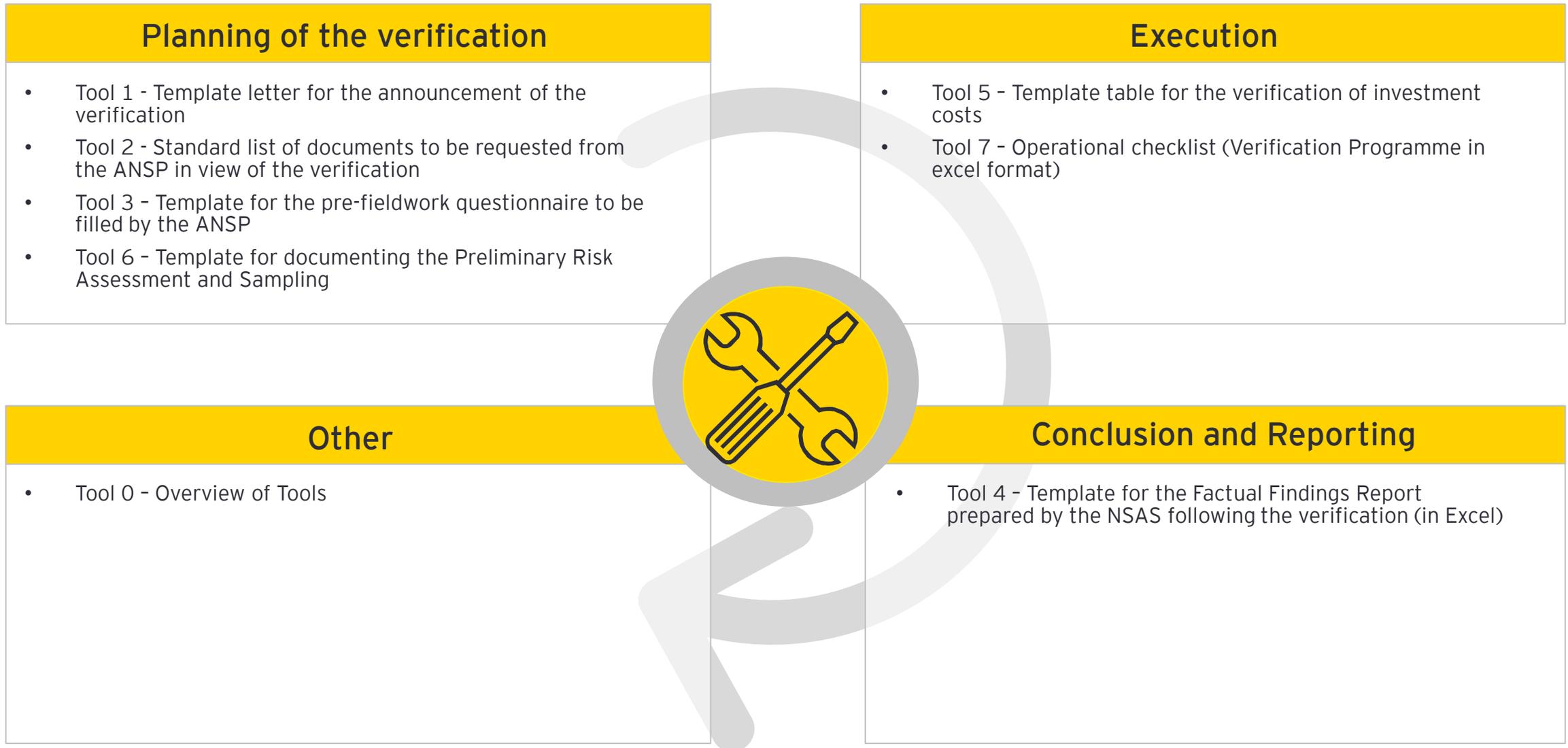
- Database of the finalised findings to be constantly updated and followed-up during the next verification process

- **For the determined costs:** Ensure that the proposed performance targets contained in the performance plans are **consistent with the Union-wide performance targets**;
- **For the actual costs:** 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**.



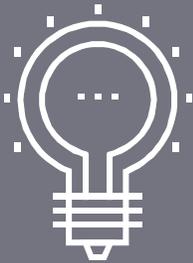
4. WRAP-UP

4. Wrap-up | Toolkit for the Verification Programme



4. Wrap-up | Next steps

What's Next?



Assistance Period



E-training module



Reach to us at: ey.move@be.ey.com

Questions?



Thank you for your
participation!

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