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ANNEX VII

TERMS OF REFERENCE FOR AN EXPENDITURE VERIFICATION OF A GRANT CONTRACT - EXTERNAL ACTIONS OF THE EUROPEAN COMMUNITY -

HOW TO USE THIS TERMS OF REFERENCE MODEL?

All text highlighted in yellow in this ToR model and its annex 1 and 2 is for instruction only and beneficiaries of grant contracts or their partners should remove it after use. The parts of the ToR presented in <.....> (e.g. <name of the beneficiary/ partner>) must be completed by the beneficiary or its partner.

The paragraphs shaded in gray should be kept only if applicable.

The following are the terms of reference ('ToR') on which <name of the Beneficiary/Partner> 'the Beneficiary'/Partner' agrees to engage <name of the audit firm/controller/control entity> 'the Auditor/Controller' to perform an expenditure verification and to report in connection with a European Community financed grant contract for external actions concerning <title of the action and number of the grant contract> (the 'Grant Contract'). Where in these ToR the 'Joint Managing Authority' is mentioned this refers to the *Ministry of Regional Development and Housing, Government of Romania*, which has signed the Grant Contract with the Beneficiary and is providing the grant funding. The Joint Managing Authority is not a party to this agreement.

1.1 Responsibilities of the Parties to the Engagement

'The **Beneficiary**' refers to the organisation that is receiving the grant funding and that has signed the Grant Contract with the Joint Managing Authority.

The Partner refers to the organisation involved in the Action, which shares the responsibilities in undertaking the Action funded by the Joint Managing Authority and which has signed the Partnership Agreement with the Beneficiary.

- The Beneficiary/Partner is responsible for providing a Financial Report for the part of the Action implemented under its own responsibility, which complies with the terms and conditions of the Grant Contract and Partnership Agreement and for ensuring that this Financial Report can be reconciled to the Beneficiary's/Partner's accounting and bookkeeping system and to the underlying accounts and records. The Beneficiary/Partner is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.
- The Beneficiary/Partner accepts that the ability of the Auditor/Controller to perform the procedures required by this engagement effectively depends upon the Beneficiary/Partner, providing full and free access to the Beneficiary's/Partner's staff and its accounting and bookkeeping system and underlying accounts and records.
- 'The **Auditor/Controller**' is responsible for performing the agreed-upon procedures as specified in these ToR, and for submitting a report of factual findings to the Beneficiary/Partner. 'Auditor/Controller' refers to the audit firm/*controller/control entity* contracted/appointed for this engagement and in particular to the partner or other person in the audit firm/*control entity* who is responsible for the engagement and for the report that is issued on behalf of the firm/entity, and who has the appropriate authority from a professional, legal or regulatory body.



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By agreeing these ToR the Auditor/Controller confirms that he/she meets at least one of the following conditions:

- The Auditor and/or the firm is a member of a national accounting or auditing body or institution which in turn is a member of the International Federation of Accountants (IFAC).
- The Auditor and/or the firm is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.
- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (this applies to auditors and audit firms based in an EU member state)¹.
- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in a third country and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to auditors and audit firms based in a third country).
- The Auditor and/or the firm is a member of an internationally recognised supervisory body for statutory auditing such as the chamber of certified public accountants which in turn is a member of the International Federation of Accountants (IFAC).
- The Controller is part of the national control system set up by the Member State participant to the Joint Operational Programme “Black Sea 2007-2013”, in compliance with Article 39 of Regulation (EC) No 1638/2006 of the European Parliament and of the Council laying down general provisions establishing a European Neighbourhood and Partnership Instrument.
- The Auditor and/or the firm asserts that he has both the knowledge and competence to apply the IFAC standards and ethics set out in these ToR and commits himself/itself to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.

1.2 Subject of the Engagement

The subject of this engagement is the <interim or final; **delete what is not applicable**> Financial Report in connection with the Grant Contract for the period covering <dd Month yyyy to dd Month yyyy> and the action entitled <title of the action>, the 'Action'. Annex 1 to these ToR contains information about the Grant Contract **and Partnership Agreements**.

1.3 Reason for the Engagement

Each project partner - including the Beneficiary - is responsible separately for having its expenditure validated by an external auditor/controller. Each partner is required to submit to the Beneficiary the expenditure verification report, produced by the external auditor/controller (conforming to the model in Annex 3A to these ToR) for the part of the Action implemented under its own responsibility.

¹ Directive 2006/43 of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253 EEC.



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The Beneficiary is responsible for collecting all partners' expenditure verification reports, drafting a consolidated financial report for the whole Action (model in Annex VI of the Grant Contract) and presenting it to an auditor/controller for examination. The auditor/controller issues a report of factual findings for consolidated expenditure verification, conforming to the model in Annex 3B to these ToR.

The Beneficiary is required to submit to the Joint Managing Authority the consolidated expenditure verification report having attached the individual reports as annex in support of the payment requested under Article 15 of the General Conditions of the Grant Contract.

The Joint Managing Authority requires this report as it makes the payment of expenditure requested by the Beneficiary conditional on the factual findings of this report.

1.4 Engagement Type and Objective

This expenditure verification is an engagement to perform certain agreed-upon procedures with regard to the Financial Report. The objective of this expenditure verification is for the Auditor/Controller to carry out the specific procedures listed in Annex 2A to these ToR and to submit to the Beneficiary/Partner a report of factual findings with regard to the specific verification procedures performed. Verification means that the Auditor/Controller examines the factual information in the Financial Report of the Beneficiary/Partner and compares it with the terms and conditions of the Grant Contract and Partnership Agreement. As this engagement is not an assurance engagement the Auditor/Controller does not provide an audit opinion and expresses no assurance. The Joint Managing Authority assesses for itself the factual findings reported by the Auditor/Controller and draws its own conclusions from these factual findings.

The beneficiary also requires certain agreed-upon procedures to check the accuracy and consistency of the compilation of the consolidated financial report. The list of procedures is set out in Annex 2C and the Model report is set out in Annex 3B.

1.5 Standards and Ethics

[applicable only for Auditors]

The Auditor shall undertake this engagement in accordance with:

- the International Standard on Related Services ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
- the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Joint Managing Authority requires that the Auditor is independent from the Beneficiary/Partner and complies with the independence requirements of the Code of Ethics for Professional Accountants.

[in case of Controllers-please choose the applicable option]

- **For Romania:** *Guidelines for controllers, issued by the Ministry of Regional Development and Housing*
- **For Bulgaria:** *Guidelines for controllers, issued by the Ministry of Regional Development and Public Works*



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1.6 Procedures, Evidence and Documentation

The Auditor/Controller plans the work so that an effective expenditure verification can be performed. The Auditor/Controller performs the procedures listed in Annex 2A of these ToR ('Listing of specific procedures to be performed') and applies the guidelines in Annex 2B (Guidelines for specific procedures to be performed). The evidence to be used for performing the procedures in Annex 2A is all financial and non-financial information which makes it possible to examine the expenditure claimed by the Beneficiary/Partner in the Financial Report. The Auditor/Controller uses the evidence obtained from these procedures as the basis for the report of factual findings. The Auditor/Controller documents matters which are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance with these ToR.

1.7 Reporting

The report on this expenditure verification should describe the purpose, the agreed-upon procedures and the factual findings of the engagement in sufficient detail in order to enable the Beneficiary/the Partner and the Joint Managing Authority to understand the nature and extent of the procedures performed by the Auditor/Controller and the factual findings reported by the Auditor/Controller.

The use of the Model report of factual findings for an expenditure verification of a grant contract in Annex 3A of these ToR is compulsory. This report should be provided by the Auditor/Controller to <name of the Beneficiary/Partner> within <xx; number of calendar days to be indicated by the Beneficiary/Partner> calendar days after the day of signature of these ToR.

The use of the Model report of factual findings for a consolidated expenditure verification of a grant contract in Annex 3B is compulsory. This report should be provided by the Auditor/Controller to <name of the Beneficiary> within <xx; number of calendar days to be indicated by the Beneficiary> calendar days after the date of receipt by the Auditor/Controller of the draft consolidated financial report and supporting verified financial reports.

1.8 Other Terms

The fee for this engagement shall be <fee amount and currency> <The Beneficiary/Partner may want to agree a fixed fee for the engagement or otherwise. The Beneficiary/Partner and the Auditor/ Controller may want to agree specific terms if the Auditor/Controller needs to extend verification coverage from 65% to 85%. The Beneficiary/Partner should specify any reimbursable expenses and allowances (e.g. travelling, other) agreed with the Auditor/ Controller and whether VAT and/or other relevant taxes are included in the fees/expenses.>

[The Beneficiary/Partner and the Auditor/Controller can use this section to agree any other specific terms]

- Annex 1 Information about the Grant Contract and the Partnership Agreement(s)
- Annex 2A Listing of specific procedures to be performed
- Annex 2B Guidelines for specific procedures to be performed
- Annex 2C Listing of specific procedures to be performed for checking the compilation of the consolidated financial report
- Annex 3A Model report of factual findings for an expenditure verification of a grant contract
- Annex 3B Model report of factual findings for a consolidated expenditure verification of a grant contract



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For the Beneficiary/Partner:

For the Auditor:

Signature

Signature

<name and capacity>

<name and capacity>

<date>

<date>



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Annex 1 Information about the Grant Contract and Partnership Agreement(s)

[Annex to be completed by the Beneficiary/Partner]

Information about the Grant Contract	
Reference number and date of the Grant Contract	< Joint Managing Authority's reference of the Grant Contract>
Grant contract title and acronym	
Reference number and date of the Partnership Agreement(s) <i>(please add as many rows as necessary)</i>	
Country/Countries and Regions where the Action or part of it is implemented	
Beneficiary	< full name and address of the Beneficiary as per the Grant Contract>
Partner 1	< full name and address of the Partner 1 as per the Partnership Agreement no.>
Partner 2	< full name and address of the Partner 2 as per the Partnership Agreement no.>
Partner 3	< full name and address of the Partner 3 as per the Partnership Agreement no. >
Legal basis for the Contract	<p>Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument</p> <p>Commission Regulation (EC) No 951/2007 of 9 August 2007 laying down implementing rules for cross-border cooperation programmes financed under Regulation (EC) No 1638/2006 of the European Parliament and of the Council laying down general provisions establishing a European Neighbourhood and Partnership Instrument,</p> <p>The Joint Operational Programme "Black Sea 2007-2013", adopted by the European Commission by the Decision no. 7406/27.11.2008</p>
Start date of the Action	
End date of the Action	
Total cost of the Action	<amount in Art. 3.1 of the Special Conditions of the Grant Contract>



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Total cost of the part of the Action implemented under the Beneficiary's/Partner's responsibility	<amount as specified in Annex III of the Grant Contract>
Grant maximum amount	<amount in Art. 3.2 of the Special Conditions of the Grant Contract>
Grant maximum amount for the part of the Action implemented under the Beneficiary's/Partner's responsibility	<amount as specified in Annex III of the Grant Contract>
Total amount received to date by the Beneficiary from Joint Managing Authority	< Total amount received as per dd.mm.yyyy>
Total amount received to date by the Partner x from the Beneficiary	< Total amount received as per dd.mm.yyyy>
The amount requested for payment by the Beneficiary	< provide the amount requested for payment for the part of the Action implemented under its own responsibility >
The amount requested for payment by the Partner x	< provide the total amount requested for payment for the part of the Action implemented under its own responsibility >
Joint Managing Authority	<Provide the name, position/title, phone and E-mail of the contact person at the Joint Managing Authority.
Auditor/Controller	< Name and address of the audit firm/control entity and name/position of the person within the firm/control entity who is responsible for the report>



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Annex 2A Listing of Specific Procedures to be performed

[This Annex is a standard listing of specific procedures to be performed and it shall not be modified]

1 General Procedures

1.1 Terms and Conditions of the Grant Contract and Partnership Agreement

The Auditor/Controller obtains an understanding of the terms and conditions of the Grant Contract and Partnership Agreement by reviewing the Grant Contract and its annexes, the Partnership Agreement and other relevant information, and by inquiry of the Beneficiary/Partner. The Auditor/Controller obtains a copy of the original Grant Contract (signed by the Beneficiary and the Joint Managing Authority) with its annexes and of the Partnership Agreement. The Auditor/Controller obtains and reviews the Report (which includes a narrative and a financial section) as per Article 2.1 of the General Conditions and Article 5.2 of the Partnership Agreement.

1.2 Financial Report

The Auditor/Controller verifies that the Financial Report complies with the following conditions of Article 2 of the General Conditions the Grant Contract and Article 5 of the Partnership Agreement:

- The Financial Report must conform to the model in Annex VI of the Grant Contract;
- The Financial Report should cover the part of the Action implemented under the Beneficiary's/Partner's responsibility, regardless of which part of it is financed by the Joint Managing Authority;
- The Financial Report should be drawn up in the language of the Grant Contract;
- The proof of the transfers of ownership of equipment, vehicles and supplies (Article 7.3 of the General Conditions of the Grant Contract and Article 13.3 of the Partnership Agreement) should be annexed to the final Financial Report.

1.3 Rules for Accounting and Record keeping

The Auditor/Controller examines - when performing the procedures listed in this Annex - whether the Beneficiary/Partner has complied with the following rules for accounting and record keeping of Article 16 of the General Conditions the Grant Contract and Article 7 of the Partnership Agreement:

- The accounts kept by the Beneficiary/Partner for the implementation of the Action must be a complete and accurate record of the real and authorised transactions financed by the grant;
- The Beneficiary/Partner must have a double-entry book-keeping system;
- The accounts for income and expenditure relating to the Action must be easily identifiable and verifiable;
- The accounts must provide details of interest accrued on funds paid by the Joint Managing Authority/Beneficiary.



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1.4 Reconciling the Financial Report to the Beneficiary's/Partner's Accounting System and Records

The Auditor/Controller verifies the reconciliation of the information in the Financial Report to the Beneficiary's/Partner's accounting system(s) and records (e.g. trial balance, general ledger accounts, sub ledgers etc.) (See Article 16.1).

1.5 Exchange Rates

The Auditor/Controller verifies that amounts of expenditure incurred in a currency other than the Euro have been converted at the exchange rate which is made up of the average of the rates published in InforEuro for the months covered by the Financial Report, unless otherwise provided in the Special Conditions of the Grant Contract (Article 15.9 of the General Conditions) and in the Partnership Agreement.

2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review

2.1 Budget of the Grant Contract

The Auditor/Controller carries out an analytical review of the expenditure headings in the Financial Report.

The Auditor/Controller verifies that the budget in the Financial Report corresponds with the budget of the Grant Contract (authenticity and authorisation of the initial budget) foreseen for the Beneficiary/Partner and that the expenditure incurred was indicated in the budget of the Grant Contract as to be incurred by the Beneficiary/Partner.

2.2 Amendments to the Budget of the Grant Contract

The Auditor/Controller verifies whether there have been amendments to the budget of the Grant Contract. Where this is the case the Auditor/Controller verifies that the Beneficiary has:

- requested an amendment to budget and obtained an addendum to the Grant Contract if such an addendum was required (Article 9.1 of the General Conditions).
- informed the Joint Managing Authority about the amendment in case the amendment was limited (Article 9.2 of the General Conditions) and an addendum to the Grant Contract was not required.

3 Procedures to verify selected Expenditure

3.1 Eligibility of Costs

The Auditor/Controller verifies, for each expenditure item selected, the eligibility criteria set out below.

(1) Costs actually incurred (Article 14.1)



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The Auditor/Controller verifies that the expenditure for a selected item was actually incurred by and pertains to the Beneficiary/Partner. For this purpose the Auditor/Controller examines supporting documents (e.g. invoices, contracts) and proof of payment. The Auditor/Controller also examines proof of work done, goods received or services rendered and he/she verifies the existence of assets if applicable.

(2) Cut-off - Implementation period (Article 14.1a)

The Auditor/Controller verifies that the expenditure for a selected item was incurred during the implementation period of the Action.

(3) Budget (Article 14.1b)

The Auditor/Controller verifies that the expenditure for a selected item was indicated in the Action budget and was foreseen to be incurred by the Beneficiary/Partner.

(4) Necessary (Article 14.1c)

The Auditor/Controller verifies whether it is plausible that the expenditure for a selected item was necessary for the implementation of the Action and that it had to be incurred for the contracted activities of the Action by examining the nature of the expenditure with supporting documents.

(5) Records (Article 14.1d)

The Auditor/Controller verifies that expenditure for a selected item is recorded in the Beneficiary's/Partner's accounting system and was recorded in accordance with the applicable accounting standards of the country where the Beneficiary/Partner is established and the Beneficiary's/Partner's usual cost accounting practices.

(6) Justified (Article 14.1e)

The Auditor/Controller verifies that expenditure for a selected item is substantiated by evidence (see section 1 of Annex 2B, Guidelines for Specific Procedures to be performed) and notably the supporting documents as specified in Article 16.2 and 16.3 of the General Conditions of the Grant Contract and Article 7.2 and 7.3 of the Partnership Agreement.

(7) Valuation

The Auditor/Controller verifies that the monetary value of a selected expenditure item agrees with underlying documents (e.g. invoices, salary statements) and that correct exchange rates are used where applicable.

(8) Classification

The Auditor/Controller examines the nature of the expenditure for a selected item and verifies that the expenditure item has been classified under the correct (sub)heading of the Financial Report.

(9) Compliance with Procurement, Nationality and Origin Rules

Where applicable the Auditor/Controller examines, by reference to Annex IV of the Grant Contract, which procurement, nationality and origin rules apply for a certain expenditure (sub)heading, a class of expenditure items or an expenditure item. The Auditor/Controller verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents of the procurement and purchase process. Where the Auditor/Controller finds issues of non-compliance with procurement rules, he/she reports the nature of such events as well as their financial impact in terms of ineligible expenditure. When examining procurement documentation



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the Auditor/Controller takes into account the risk indicators listed in Annex 2B and he/she reports, if applicable, which of these indicators were found.



3.2 Eligibility of Direct Costs (Article 14.2)

If the expenditure for a selected item is recorded under one of the direct costs headings 1 to 6 of the Financial Report, the Auditor/Controller verifies that this type of expenditure is covered by the direct costs as defined in Article 14.2 of the Grant Contract by examining the nature of the expenditure items concerned.

3.3 Provision for Contingency Reserve (Article 14.3)

The Auditor/Controller verifies that the provision for contingency reserve (heading 8 Financial Report) does not exceed 2% of the direct eligible costs of the part of the Action implemented under the Beneficiary/Partner's responsibility and that the Beneficiary has obtained prior written authorisation of the Joint Managing Authority for the use of this contingency reserve.

3.4 Administrative costs (Article 14.4)

The Auditor/Controller verifies that the indirect costs to cover the administrative overheads (heading 10 Financial Report) do not exceed 7% of the total amount of eligible direct costs of the part of the Action implemented under the Beneficiary/Partner's responsibility.

3.5 Contributions in kind (Article 14.5)

The Auditor/Controller verifies that costs in the Financial Report do not include contributions in kind. Contributions in kind are not eligible costs.

3.6 Non-eligible costs (Article 14.6)

The Auditor/Controller verifies that the expenditure for a selected item does not concern a non-eligible cost as described in Article 14.6 of the General Conditions and Article 6.6 of the Partnership Agreement.

The Auditor/Controller verifies whether expenditure includes certain taxes, including VAT. If this is the case the Auditor verifies whether the Beneficiary/Partner cannot reclaim these taxes and whether the applicable regulations, rules and practices in the country concerned allow the coverage of these taxes in the expenditure.

3.7 Revenues of the Action

The Auditor/Controller examines whether revenues which should be attributed to the Action (including inter alia grants and funding received from other donors and other revenue generated by the Beneficiary/Partner in the context of the Action such as for example interest earned) have been allocated to the Action, recorded in the accounting system and disclosed in the Financial Report. For this purpose the Auditor/Controller inquires with the Beneficiary/Partner and examines documentation obtained from the Beneficiary/Partner. The Auditor is not expected to examine the completeness of the revenues reported.



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Annex 2B Guidelines for Specific Procedures to be performed

[This Annex provides standard guidelines for the specific procedures to be performed and these guidelines shall not be modified]

1 Verification Evidence

When performing the specific procedures listed in Annex 2A the Auditor/Controller may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations and representations from the Beneficiary/Partner or from third parties.

The Auditor/Controller obtains verification evidence from these procedures to draw up his report of factual findings. Verification evidence is all information used by the Auditor/Controller in arriving at the factual findings and it includes the information contained in the accounting records underlying the Financial Report and other information (financial and non-financial).

The contractual requirements that relate to verification evidence are:

- Expenditure should be identifiable, verifiable and recorded in the accounting records of the Beneficiary/Partner (Article 14.1.d) of the General Conditions of the Grant Contract and Article 6.1.d of the Partnership Agreement.);
- Expenditure must be easily identifiable and verifiable and traced to and within the Beneficiary's/Partner's accounting and bookkeeping systems (Article 16.1 of the General Conditions and Article 7.1 of the Partnership Agreement.);
- The Beneficiary/Partner will allow any external auditor/controller to carry out verifications on the basis of supporting documents for the accounts, accounting documents and any other document relevant to the financing of the Action. The Beneficiary/Partner gives access to all documents and databases concerning the technical and financial management of the Action (Article 16.2 of the General Conditions and Article 7.2 of the Partnership Agreement.);
- Article 16.3 of the General Conditions of the Grant Contract and Article 7.3 of the Partnership Agreement provides a list of the types and nature of evidence that the Auditor will often find in expenditure verifications.

Moreover, for the purpose of the procedures listed in Annex 2A, evidence:

- Must be available in documentary form, whether paper, electronic or other medium (e.g. a written record of a meeting is more reliable than an oral presentation of the matters discussed);
- Must be available in the form of original documents rather than photocopies or facsimiles;
- Should preferably be obtained from independent sources outside the entity (an original suppliers invoice or contract is more reliable than an internally approved receipt note);
- Which is generated internally is more reliable if it has been subject to control and approval;
- Obtained directly by the Auditor/Controller (e.g. inspection of assets) is more reliable than evidence obtained indirectly (e.g. inquiry about the asset).

If the Auditor/Controller finds that the above criteria for evidence are not sufficiently met, he/she should detail this in the factual findings.



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2 Obtaining an understanding of the terms and conditions of the Grant Contract and of the Partnership Agreement. (Annex 2A - procedure 1.1)

The Auditor/Controller obtains an understanding of the terms and conditions of the Grant Contract and of the partnership Agreement and he/she should pay particular attention to Annex I of the Grant Contract, which contains the Description of the Action, Annex II (General Conditions) and Annex IV, which provides rules for procurement (including nationality and origin rules) by grant beneficiaries and partners in the context of EC external actions. Failure to comply with these rules makes expenditure ineligible for Community financing. These procurement rules apply to all grant contracts but depending on the legal basis for the Grant Contract (e.g. TACIS, ALA, Food Aid and Development Co-operation Instrument) nationality and origin rules may vary. The Auditor/Controller ensures with the Beneficiary/Partner that the applicable nationality and origin rules are identified and understood. Applicable rules of nationality and origin are set out, for each legal basis, in Annex A2 to the Practical Guide² to contract procedures for external actions of the European Communities.

If the Auditor/Controller finds that the terms and conditions to be verified are not sufficiently clear he should request clarification from the Beneficiary/Partner.

3 Selecting Expenditure for Verification (Annex 2A - procedures 3.1 - 3.7)

The expenditure claimed by the Beneficiary/Partner in the Financial Report is presented under the following expenditure headings: *1 Human Resources, 2 Travel, 3 Equipment and Supplies, 4 Offices, 5 Subcontracted services, 6 Other, 8 Provision for contingency reserve and 10 Administrative costs.* Expenditure headings 1 to 6 represent direct costs of the Action. Expenditure headings can be broken down into expenditure subheadings such as for example *1.1 Technical staff.*

Expenditure subheadings can be broken down into individual expenditure items or classes of expenditure items with the same or similar characteristics. The form and nature of the supporting evidence (e.g. a payment, a contract, an invoice etc) and the way expenditure is recorded (i.e. journal entries) vary with the type and nature of the expenditure and the underlying actions or transactions. However, in all cases expenditure items should reflect the accounting (or financial) value of underlying actions or transactions no matter the type and nature of the action or transaction concerned.

Value should be the principal factor used by the Auditor/Controller to select expenditure items or classes of expenditure items for verification. The Auditor/Controller selects high value expenditure items to ensure an appropriate coverage of expenditure.

4 Verification Coverage of Expenditure (Annex 2A - procedures 3.1 - 3.7)

The Auditor/Controller applies the principles and criteria set out below when planning and performing the specific verification procedures for selected expenditure in Annex 2A (procedures 3.1 - 3.7). Situations where national control rules³ require a 100% verification of expenditure satisfy the Expenditure Coverage requirements expected in this agreed-upon procedure.

Verification by the Auditor/Controller and verification coverage of expenditure items does not necessarily mean a complete and exhaustive verification of all the expenditure items that are included in a specific expenditure heading or subheading. The Auditor/Controller should ensure a

² Practical Guide (applicable for Budget and EDF) and annexes for Budget and EDF

see:http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/index_en.htm

³ According with Art. 39 of the ENPI Implementing Regulation, Member States may set up national control systems making it possible to verify the soundness of the expenditure declared for operations or parts of operations implemented on their territories, and the compliance of such expenditure and of related operations, or parts of those operations, with Community rules and their national rules.



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systematic and representative verification. Depending on certain conditions (see further below) the Auditor/Controller may obtain sufficient verification results for an expenditure heading or subheading by looking at a limited number of selected expenditure items.

The Auditor/Controller may apply statistical sampling techniques for the verification of one or more expenditure headings or subheadings of the Financial Report. The Auditor/Controller examines whether 'populations' (i.e. expenditure subheadings or classes of expenditure items within expenditure subheadings) are suitable and sufficiently large (i.e. are made up of large numbers of items) for effective statistical sampling.

If applicable the Auditor/Controller should explain in the report of factual findings for which headings or subheadings of the Financial Report sampling has been applied, the method used, the results obtained and whether the sample is representative.

The Expenditure Coverage Ratio ('ECR') represents the total amount of expenditure verified by the Auditor/Controller expressed as a percentage of the total amount of expenditure reported by the Beneficiary/Partner in the Financial Report and claimed by the Beneficiary/Partner for deduction from the total sum of pre-financing paid to it by the Joint Managing Authority/Beneficiary.

The Auditor/Controller ensures that the overall ECR is at least **65%**. If he finds an exception rate of less than 10% of the total amount of expenditure verified (i.e. 6,5 %) the Auditor/Controller finalises the verification procedures and continues with reporting.

If the exception rate found is higher than 10% the Auditor/Controller extends verification procedures until the ECR is at least **85%**. The Auditor/Controller then finalises verification procedures and continues with reporting regardless of the total exception rate found. The Auditor/Controller ensures that the **ECR for each expenditure heading and subheading** in the Financial Report is at least 10%.

5 Procedures to verify selected Expenditure (Annex 2A - procedures 3.1 - 3.7)

The Auditor/Controller verifies the selected expenditure items by carrying out procedures 3.1 - 3.7 listed in Annex 2A and reports all the factual findings and exceptions resulting from these procedures. Verification exceptions are all verification deviations found when performing the procedures set out in Annex 2A.

The Auditor/Controller quantifies the amount of the verification exception found and the potential impact on the EC contribution, should the Commission declare the expenditure item(s) concerned ineligible (where applicable taking into account the percentage of funding of the Commission and the impact on indirect expenditure (e.g. administrative costs)). The Auditor/Controller reports all exceptions found including the ones of which he cannot quantify the amount of the verification exception found and the potential impact on the EC contribution.

For example: if the Auditor/Controller finds an exception of 1.000€ with regard to procurement rules for a grant contract where the EC finances 60% of the expenditure and where administrative costs of 7% of total direct eligible expenses are foreseen, the Auditor/Controller reports an exception of 1.000€ and a financial impact of 642€ (1.000€ x 60% x 1.07).

Specific guidance for procedure 3.1.9 Compliance with Procurement, Nationality and Origin Rules

The Auditor/Controller should verify whether the expenditure for a selected item was incurred in accordance with the applicable procurement, nationality and origin rules by examining the underlying documents of the procurement and purchase process. Such documents relate to the opening of tenders, the assessment of the eligibility of tenderers and conformity of tenders, the evaluation of the offers and the decisions with regard to the awarding of the contract. When examining these procurement documents the Auditor/Controller takes into account the risk



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indicators listed at the end of this Annex and he reports, if applicable, which of these indicators were identified.



Specific guidance for procedure 3.5 Contributions in kind

The Auditor/Controller should verify that expenditure in the Financial Report does not include any contributions in kind. If contributions in kind are foreseen they must be indicated and valued in the Action budget. If this is not the case contributions in kind are not eligible. *Examples:* salaries of staff detached by a Ministry which is not part of the action or equipment and material received from organisations which do not participate in the Action.



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RISK INDICATORS PROCUREMENT

- Inconsistencies in the dates of the documents or illogical sequence of dates. Examples:
 - Offer dated after the award of contract or before the sending of the invitations to tender
 - Offer of the winning tenderer dated before the publication date of the tender or dated significantly later than offers of other tenderers
 - Offers of different candidates participating in the same tenders all having the same date
 - Dates on documents not plausible/consistent with dates on accompanying documentation (e.g. date on the offer not plausible/consistent with the postal date on the envelope; date of a fax not plausible/consistent with the printed date of the fax machine)
 - Unusual similarities in offers of candidates participating in the same tender. Examples:
 - Same wording, sentences and terminology in offers of different tenderers
 - Same layout and format (e.g. font type, font size, margin sizes, indents, paragraph wrapping, etc) in offers of different tenderers
 - Similar letterhead paper or logos
 - Same prices used in offers of different tenderers for a number of subcomponents or line items
 - Identical grammatical, orthographical or typing errors in offers of different tenderers
 - Use of similar stamps and similarities in signatures
 - Financial statement or other information indicating that two tenderers participating in the same tender are related or part of a same group (e.g. where financial statements are provided, the notes to the financial statements may disclose ultimate ownership of the group. Ownership information may also be found in public registers for accounts)
 - Inconsistencies in the selection and award decision process. Examples:
 - Award decisions not plausible / consistent with selection and award criteria
 - Errors in the application of the selection and award criteria
 - A regular supplier of the beneficiary participates as a member of a tender evaluation committee
 - Other elements and examples indicating a risk of privileged relationship with tenderers:
 - A same tenderer (or small group of tenderers) is invited to different tenders with unusual frequency
 - A same tenderer (or small group of tenderers) wins an unusually high proportion of the
-



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bids

- A tenderer is frequently awarded contracts for different types of goods or services
 - The winning tenderer invoices additional goods not foreseen in the offer (e.g. additional spare parts invoiced without clear justification, installation costs invoiced while not foreseen in the offer).
 - Other documentation, issues and examples indicating a risk of irregularities:
 - Use of photocopies instead of original documents
 - Use of pro-forma invoices as supporting documents instead of official invoices
 - Manual changes on original documents (e.g. figures manually changed, figures "tippexed", etc)
 - Use of non-official documents (e.g. letterhead paper not showing certain official and/or compulsory information such as commercial registry number, company tax number, etc.)
-



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ANNEX 2C Listing of specific procedures to be performed for checking the compilation of the consolidated financial report

1 General Procedures

1.1 Terms and Conditions of the Grant Contract and Partnership Agreement (This section only applies where the Auditor/Controller is different to the person/firm that performs the expenditure verification work for the beneficiary)

The Auditor/Controller obtains an understanding of the terms and conditions of the Grant Contract and Partnership Agreement by reviewing the Grant Contract and its annexes, the Partnership Agreement and other relevant information, and by inquiry of the Beneficiary/Partner. The Auditor/Controller obtains a copy of the original Grant Contract (signed by the Beneficiary and the Joint Managing Authority) with its annexes and of the Partnership Agreement. The Auditor/Controller obtains and reviews the Report (which includes a narrative and a financial section) as per Article 2.1 of the General Conditions and Article 5.2 of the Partnership Agreement.

1.2 Consolidated Financial Report

The Auditor/Controller obtains the draft Consolidated Financial Report, the underlying working papers for the compilation of the draft Consolidated Financial Report and the individual verified financial reports that are to be included in the Consolidated Financial Report. The Auditor/Controller reviews the Consolidated Financial Report to establish compliance with the following conditions:

- The Consolidated Financial Report must conform to the model in Annex VI of the Grant Contract;
- The Consolidated Financial Report should cover the combined expenditure for the Action of the Beneficiary and all its Partners, regardless of which part of it is financed by the Joint Managing Authority;
- The Consolidated Financial Report should be drawn up in the language of the Grant Contract;

2 Procedures to check the compilation of the Consolidated Financial Report

2.1 Completeness and accuracy of the compilation of the Consolidated Financial Report

The Auditor/Controller traces each budget and actual amount stated in the Consolidated Financial Report to the total amounts in an underlying working paper that compiles the information from the individual verified financial reports for the Beneficiary and its Partners.

The Auditor/Controller traces each individual budget and actual amount stated in the underlying working paper to the individual verified financial reports for the Beneficiary and its Partners.

The Auditor/Controller reperforms all calculations and additions in the Consolidated Financial Report and in the underlying working paper.

The Auditor/Controller reviews each expenditure verification report to identify any findings that may affect the presentation of the Consolidated Financial Report and that should be reported by him as exceptions.



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2.2 Consistency of presentation



The Auditor/Controller checks that the Consolidated Financial Report uses the same revenue and expenditure headings as the underlying financial reports for reporting both budget and actual amounts

The Auditor/Controller checks that in compiling the Consolidated Financial Report, the budget and actual amounts recorded under each revenue/ expenditure heading in the underlying verified financial reports have been consistently included under the same headings in the Consolidated Financial Report.

HOW TO USE THIS MODEL REPORT?

All text highlighted in yellow in this model report is for instruction only and auditors should remove it after use. Information requested in the following form <.....> (e.g. <name of the beneficiary> must be completed by the auditor.

The paragraphs shaded in gray should be kept only if applicable.

<To be printed on AUDITOR'S letterhead>

Report for an Expenditure Verification of a Grant Contract
External Actions of the European Community

<Title of and number of the grant contract >

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Report of Factual Findings

<Name of contact person(s)>, < Position>

< Beneficiary's/Partner's name>

<Address>

<dd Month yyyy>

Dear <Name of contact person(s)>

In accordance with the terms of reference dated <dd Month yyyy> that you agreed with us, we provide our Report of Factual Findings ("the Report"), with respect to the accompanying Financial Report for the period covering <dd Month yyyy - dd Month yyyy> (Annex 1 of this Report). You requested certain procedures to be carried out in connection with your Financial Report and the European Community financed Grant Contract concerning <title and number of the contract>, the 'Grant Contract'.

Objective

Our engagement was an expenditure verification which is an engagement to perform certain agreed-upon procedures with regard to the Financial Report. The objective of this expenditure verification is for us to carry out certain procedures to which we have agreed and to submit to you a report of factual findings with regard to the procedures performed.



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Standards and Ethics

Our engagement was undertaken in accordance with:

[applicable only for Auditors]

- International Standard on Related Services ('ISRS') 4400 *Engagements to perform Agreed-upon Procedures regarding Financial Information* as promulgated by the International Federation of Accountants ('IFAC');
- the *Code of Ethics for Professional Accountants* issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Joint Managing Authority requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*;

[in case of Controllers-please choose the applicable option]

- **For Romania:** *Guidelines for controllers, issued by the Ministry of Regional Development and Housing*
- **For Bulgaria:** *Guidelines for controllers, issued by the Ministry of Regional Development and Public Works*
- **For Greece:**

Procedures performed

As requested, we have performed the procedures listed in Annex 2A of the terms of reference for this engagement (see Annex 2 of this Report).

These procedures have been determined solely by the Joint Managing Authority and the procedures were performed solely to assist the Joint Managing Authority in evaluating whether the expenditure claimed by you in the accompanying Financial Report is eligible in accordance with the terms and conditions of the Grant Contract and Partnership Agreement.

Because the procedures performed by us did not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying Financial Report.

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Beneficiary/Partner in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Sources of Information

The Report sets out information provided to us by you in response to specific questions or as obtained and extracted from your accounts and records

Factual Findings

The total expenditure which is the subject of this expenditure verification amounts to <xxxxxx> €.



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The Expenditure Coverage Ratio is <xx%>. This ratio represents the total amount of expenditure verified by us expressed as a percentage of the total expenditure which has been subject of this expenditure verification. The latter amount is equal to the total amount of expenditure reported by you in the Financial Report and claimed by you for deduction from the total sum of pre-financing paid by the Joint Managing Authority/Beneficiary.

We report the details of our factual findings which result from the procedures that we performed in Chapter 2 of this Report.

Use of this Report

This Report is solely for the purpose set forth in the above objective.

This report is prepared solely for your own confidential use and solely for the purpose of submission by you to the Joint Managing Authority/Beneficiary in connection with the requirements as set out in Article 15 of the General Conditions of the Grant Contract and Article 5 of the Partnership Agreement. This report may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

The Joint Managing Authority is not a party to the agreement (the terms of reference) between you and us and therefore we do not owe or assume a duty of care to the Joint Managing Authority who may rely upon this expenditure verification report at its own risk and discretion. The Joint Managing Authority can assess for itself the procedures and findings reported by us and draw its own conclusions from the factual findings reported by us.

The Joint Managing Authority may only disclose this Report to others who have regulatory rights of access to it in particular the European Commission, the European Anti Fraud Office and the European Court of Auditors.

This Report relates only to the Financial Report specified above and does not extend to any of your financial statements.

We look forward to discussing our Report with you and would be pleased to provide any further information or assistance which may be required.

Yours sincerely

<dd Month yyyy>,

<Name of the Auditor/Controller>



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1 Information about the Grant Contract and Partnership Agreement

[Chapter 1 should include a brief description of the Grant Contract, the Partnership Agreement and the Action, the Beneficiary/Partner/ implementing structure and key financial/budget information. (maximum 1 page)]

2 Procedures performed and Factual Findings

We have performed the specific procedures listed in Annex 2A of the terms of reference for the expenditure verification ('ToR') . These procedures cover:

- 1 General Procedures
- 2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review
- 3 Procedures to verify selected Expenditure

We have applied the rules for selection of expenditure and the principles and criteria for verification coverage as set out in Annex 2B (sections 3 and 4) of the ToR for this expenditure verification.

[Explain here difficulties or problems encountered if any]

The total expenditure verified by us amounts to <xxx> € and is summarised in the table below. The overall Expenditure Coverage Ratio is <xx%>.

[Provide here a summary table of the Financial Report in Annex 1, presenting for each (sub) heading the total expenditure amount reported by the Beneficiary/Partner, the total expenditure amount verified and the percentage of expenditure covered]

We have verified the selected expenditure as shown in the above summary table and we have carried out, for each expenditure item selected, the verification procedures specified at point 3.1 to 3.7 of Annex 2A of the ToR for this expenditure verification.

We report our factual findings resulting from these procedures below:

1 General Procedures

1.1 Terms and Conditions of the Grant Contract and of the Partnership Agreement

We have obtained an understanding of the terms and conditions of this Grant Contract and of the Partnership Agreement in accordance with the guidelines in Annex 2B (section 2) of the ToR.

[Describe factual findings and specify errors and exceptions. Procedures 1.1 - 1.5 in Annex 2A]



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1.2 Financial Report

1.3 Rules for Accounting and Record keeping

1.4 Reconciling the Financial Report to the Beneficiary's/Partner's Accounting System and Records

1.5 Exchange Rates

2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review

2.1 Budget of the Grant Contract

2.2 Amendments to the Budget of the Grant Contract

[Describe factual findings and specify errors and exceptions. Procedures 2.1 - 2.2 in Annex 2A]

3 Procedures to verify selected Expenditure

We have reported further below all the exceptions resulting from the verification procedures specified at point 3.1 - to 3.7 of Annex 2A of the ToR for this expenditure verification insofar these procedures did apply to the selected expenditure item.

We have quantified the amount of the verification exceptions found and the potential impact on the EC contribution, should the Commission declare the expenditure item(s) concerned ineligible (where applicable taking into account the percentage of funding of the Commission and the impact on indirect expenditure (e.g. administrative costs)). We have reported all exceptions found including the ones of which we cannot quantify the amount of the verification exception found and the potential impact on the EC contribution.

[Specify for which expenditure amounts / items exceptions between facts and criteria were found, the nature of the exception - this means which of the specific condition or conditions described at point 3.1 to 3.7 of Annex 2A of the ToR were not respected. Quantify the amount of the verification exception found and the potential impact on the EC contribution, should the Commission declare the expenditure item(s) concerned ineligible]

3.1 Eligibility of Costs

We have verified, for each expenditure item selected, the eligibility criteria set out at procedure 3.1 in Annex 2A of the ToR for this expenditure verification.

[Describe factual findings and specify errors and exceptions. Procedure 3.1 in Annex 2A: eligibility of costs and the eligibility criteria (1) to (9). Example: we found that an expenditure amount of 6.500 € included in subheading 3.2 (Rent of vehicles) of the Financial Report was not eligible. An amount of 2.000€ related to expenditure incurred outside the implementation period. Supporting evidence was not available for 3 transactions totalling 1.200€. The required procurement rules for purchases of office computers for 3.300€ were not respected. (Note: relevant details such as accounting record references or documents should be provided).]





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3.2 Eligibility of Direct Costs (Article 14.2)

3.3 Provision for Contingency Reserve (Article 14.3)

3.4 Administrative costs (Article 14.4)

3.5 Contributions in kind (Article 14.5)

3.6 Non-eligible costs (Article 14.6)

3.7 Revenues of the Action

[Describe factual findings and specify errors and exceptions. Procedures 3.2 - 3.7 in Annex 2A]

Annex 1 Financial Report

[Annex 1 should include the Beneficiary's /Partner's financial report which has been the subject of the verification. The financial report should be dated and indicate the period covered.]

Annex 2 Terms of Reference Expenditure Verification

[Annex 2 should include a signed and dated copy of the terms of reference for the expenditure verification including Annex 1 (information about the Grant Contract and Partnership Agreements) and Annex 2A (Listing of the specific procedures to be performed).]





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ANNEX 3B: Model report of factual findings for a consolidated expenditure verification of a grant contract

HOW TO USE THIS MODEL REPORT?

All text highlighted in yellow in this model report is for instruction only and Auditors/Controllers should remove it after use. Information requested in the following form <.....> (e.g. <name of the beneficiary> must be completed by the auditor.

The paragraphs shaded in gray should be kept only if applicable.

<To be printed on AUDITOR'S/ Controller's letterhead>

Report for the checking of the Compilation of a Consolidated Financial Report in respect of
Actions under a Grant Contract
External Actions of the European Community

<Title of and number of the grant contract >

Report of Factual Findings

<Name of contact person(s)>, < Position>

< **Beneficiary's name** >

<Address>

<dd Month yyyy>

Dear <Name of contact person(s)>

In accordance with the terms of reference dated <dd Month yyyy> that you agreed with us, we provide our Report of Factual Findings ("the Report"), with respect to the compilation of the accompanying Consolidated Financial Report for the period covering <dd Month yyyy - dd Month yyyy> (Annex 1 of this Report). You requested certain procedures to be carried out in connection with your Consolidated Financial Report and the European Community financed Grant Contract concerning <title and number of the contract>, the 'Grant Contract'.

Objective

Our engagement was to perform certain agreed-upon procedures with regard to the compilation of the Consolidated Financial Report and to submit to you a report of factual findings with regard to the procedures performed.

Procedures performed

As requested, we have performed the procedures listed in Annex 2 of this Report.

These procedures have been determined solely by you and were performed by us solely to assist the Joint Managing Authority in evaluating whether the expenditure claimed by you in the accompanying Consolidated Financial Report is eligible in accordance with the terms and conditions of the Grant Contract and Partnership Agreement.

Because the procedures performed by us did not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying Financial Report.



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Had we performed additional procedures or had we performed an audit or review of the financial statements of the Beneficiary in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Sources of Information

The documents provided to us by you for the compilation checking are listed in Annex 3 to this report.

Factual Findings

The total expenditure recorded in the Consolidated Financial Report is <xxxxxx> €.

(Delete as appropriate)

No exceptions were noted by us arising from the conduct of the agreed-upon procedures listed in Annex 2.

Or

We report the following exceptions noted by us arising from the conduct of the agreed-upon procedures listed in Annex 2:

1.

2.

Use of this Report

This Report is solely for the purpose set forth in the above objective.

This report is prepared solely for your own confidential use and solely for the purpose of submission by you to the Joint Managing Authority/Beneficiary in connection with the requirements as set out in Article 15 of the General Conditions of the Grant Contract and Article 5 of the Partnership Agreement. This report may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

The Joint Managing Authority is not a party to the agreement (the terms of reference) between you and us and therefore we do not owe or assume a duty of care to the Joint Managing Authority who may rely upon this expenditure verification report at its own risk and discretion. The Joint Managing Authority can assess for itself the procedures and findings reported by us and draw its own conclusions from the factual findings reported by us.

The Joint Managing Authority may only disclose this Report to others who have regulatory rights of access to it in particular the European Commission, the European Anti Fraud Office and the European Court of Auditors.

This Report relates only to the Consolidated Financial Report specified above and does not extend to any of your financial statements.

We look forward to discussing our Report with you and would be pleased to provide any further information or assistance which may be required.

Yours sincerely

<Name of the Auditor/Controller>



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Annex 1 Financial Report

*[Annex 1 should include the Beneficiary's financial report which has been the subject of the verification. The financial report should be **dated** and indicate the **period covered**.]*

Annex 2 Terms of Reference Expenditure Verification

*[Annex 2 should include a **signed** and **dated** copy of the terms of reference for the expenditure verification including **Annex 1** (information about the Grant Contract and Partnership Agreements) and **Annex 2C** (Listing of the specific procedures to be performed).]*

Annex 3 Documents referred to in the checking of the Compilation of the Consolidated Financial Report

[Annex 3 should list the documents used for the compilation checking work. At a minimum these will include the Consolidated Financial Report, the expenditure verification reports and underlying financial reports for the Beneficiary, a compilation working paper providing an audit trail for each number in the Consolidated Financial Report back to the underlying verified financial reports.]