

TERMS OF REFERENCE FOR AN EXPENDITURE VERIFICATION OF A GRANT CONTRACT

- EXTERNAL ACTION OF THE EUROPEAN UNION -

The following are the terms of reference ('ToR') under which Ministry of Internal Affairs represented by Informational technology service, Republic of Moldova¹ (The term "Lead Beneficiary" refers to the Beneficiary identified as the Lead Beneficiary in the Special Conditions) agrees to engage the Auditor to perform an expenditure verification and to report in connection with a European Union financed grant contract for an external action concerning ENI-EMS: COMINF/3.1/1 – "Communication infrastructure", nr . 87467/28.06.2019 (the 'Grant Contract'). Where in these ToR the 'Contracting Authority' is mentioned, this refers to Managing Authority for the Romania - Republic of Moldova Joint Operational Programme 2014-2020 - Ministry of Regional Development and Public Administration, which has signed the Grant Contract with the Lead Beneficiary and is providing the grant funding. The Contracting Authority is not a party to this agreement.

1.1. Responsibilities of the Parties to the Engagement

The term "**Beneficiary(ies)**" refers collectively to all Beneficiaries, including the Lead Beneficiary, of the Action. When there is only one Beneficiary of the Action, the terms Beneficiary(ies) and Lead Beneficiary should both be understood as referring to the only Beneficiary of the Action (see footnote 1). Where applicable the term 'Beneficiary(ies)' includes its affiliated entity(ies).

- The Lead Beneficiary is responsible for providing a Financial Report for the action financed by the Grant Contract which complies with the terms and conditions of the Grant Contract and for ensuring that this Financial Report reconciles to the Beneficiary's accounting and bookkeeping system and to the underlying accounts and records. The Beneficiary is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.
- The Lead Beneficiary accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Beneficiary(ies), and as the case may be its affiliated entity(ies), providing full and free access to its (their) staff and its (their) accounting and bookkeeping system and underlying accounts and records.
- 'The **Auditor**' is responsible for performing the agreed-upon procedures as specified in these ToR. 'Auditor' refers to the audit firm contracted for performing this engagement and for submitting a report of factual findings to the Beneficiary. 'Auditor' can refer to the person or persons conducting the verification, usually the engagement partner or other members of the engagement team. The engagement partner is the partner or other person in the audit firm who is responsible for the engagement and for the report that is issued on behalf of the firm, and who has the appropriate authority from a professional, legal or regulatory body.

By agreeing these ToR the Auditor 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 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.

¹ See cover page of Annex II of the Grant Contract: General Conditions applicable to EU-financed grant contracts for external actions.

- 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 State²).
- 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 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 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 verification of the eligibility of the expenditures within the 2 interim and 1 final Financial Reports in connection with the Grant Contract for the period covering 29 June 2019 to 28 June 2022 and the action entitled COMINF/3.1/1 – "Communication infrastructure", the 'Action'. Annex 1 to these ToR contains information about the Grant Contract.

1.3. Reason for the Engagement

The Lead Beneficiary is required to submit to the Joint Managing Authority an expenditure verification report for the part of the Action implemented under its own responsibility produced by an external auditor/ controller in support of the payment requested by the Lead Beneficiary under Article 4 of the Grant Contract. The Lead Beneficiary is further required to produce a consolidated financial report that combines the individual verified financial reports for the Action under its responsibility and under the responsibility of each Partner.

The Partner is required to submit to the Lead Beneficiary an expenditure verification report for the part of the Action implemented under its own responsibility, produced by an external auditor/controller, which shall be submitted to the Joint Managing Authority in support of the payment requested by the Lead Beneficiary under Article 4 of the Grant Contract.

The Joint Managing Authority requires this report as he makes the payment of expenditure requested by the Lead 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 for the Grant Contract. The objective of this expenditure verification is for the

² Directive 2006/43 of the European Parliament and of the Council of 14 July 2006 on statutory audits of annual accounts and consolidated, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253 EEC.

Auditor to carry out the specific procedures listed in Annex 2A to these ToR and to submit to the Lead Beneficiary a report of factual findings with regard to the specific verification procedures performed. Verification means that the Auditor examines the factual information in the Financial Report of the Lead Beneficiary 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 does not provide an audit opinion and expresses no assurance. The Contracting Authority assesses for itself the factual findings reported by the Auditor and draws its own conclusions from these factual findings.

The Lead 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

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 IFAC Code of Ethics for Professional Accountants, developed and issued by IFAC’s International Ethics Standards Board for Accountants (IESBA), which establishes fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the Auditor is independent from the Beneficiary(ies) and complies with the independence requirements of the IFAC Code of Ethics for Professional Accountants.

1.6. Procedures, Evidence and Documentation

The Auditor plans the work so that an effective expenditure verification can be performed. The Auditor 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 Lead Beneficiary in the Financial Report. The Auditor uses the evidence obtained from these procedures as the basis for the report of factual findings. The Auditor 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 ISRS 4400 and 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 to enable the Lead Beneficiary and the Contracting Authority to understand the nature and extent of the procedures performed by the Auditor and the factual findings reported by the Auditor.

The use of the Model Report for an Expenditure Verification of an EU Grant Contract in Annex 3 of these ToR is compulsory. This report should be provided by the Auditor to Ministry of internal Affairs represented by Informational technology service, Republic of Moldova within 30 working days for each interim/final report starts.

1.8. Other Terms

The fee for this engagement shall be no more than 315 000 MDL.

The fee for the audit periods could be established in percentage value from the amount supposed to verification, the entire project budget of the Lead Beneficiary is estimated in 4 301 855.47 Euro.

The Lead Beneficiary and the Auditor can use this section to agree any other specific terms.

- Annex 1** Information about the Grant Contract
- 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 for an expenditure verification
- Annex 3B** Model report for checking the compilation of the consolidated financial report.

For the Lead Beneficiary:

Signature

Director, Andrian SOVA

<date>

For the Auditor:

Signature

<name and function>

<date>

Annex 1 Information about the Grant Contract

Information about the Grant Contract	
Reference number and date of the Grant Contract	ENI-EMS:COMINF/3.1/1, no. 87467/ 28.06.2019
Grant contract title	”Communication Infrastructure”
Country	Republic of Moldova
Lead Beneficiary	Ministry of Internal Affairs represented by Information Technology Service, Republic of Moldova
Beneficiary 1	Ministry of Internal Affairs, represented by the General Directorate for Communications and Information Technology, Romania
Beneficiary 2	Ministry of Transport, Infrastructure and Communication, Romania
Start date of the implementation period of the Action	29.06.2019
End date of the implementation period of the Action	28.06.2022
Total eligible cost of the Action	7 951 320.33 EUR
Grant maximum amount	5 013 840.00 EUR
Total amount received to date by the Lead Beneficiary from Contracting Authority	< Total amount received as per dd.mm.yyyy >
Total amount of the payment request	< provide the total amount requested for payment as per Annex V to the Special Conditions for Grant Contracts (Payment Request for a grant contract for European Union external actions) >
Contracting Authority	[<Provide the name, position/title, phone and E-mail of the contact person at the Contracting Authority>. (To be completed only if the Contracting Authority is not the Commission.)]
European Commission	< provide the name, position/title, phone and E-mail of the contact person in the Delegation of the European Union in the country concerned, or if applicable at Headquarters >
Auditor	< Name and address of the audit firm and names/positions of the auditors >

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

The Auditor:

- obtains an understanding of the terms and conditions of the Grant Contract by reviewing the Grant Contract and its annexes and other relevant information, and by inquiry of the Lead Beneficiary;
- obtains a copy of the original Grant Contract (signed by the Beneficiary(ies) and the Contracting Authority) with its annexes;
- obtains and reviews the Report (which includes a narrative and a financial section) as per Article 1.12 of the Grant Contract;
- verifies whether the Grant Contract is mono or multi-beneficiary (see Grant Contract introduction part; in case of a multi-beneficiary grant the term 'Lead Beneficiary' is used);
- verifies whether there is (are) an affiliated entity(ies) to any of the Beneficiary(ies) (see Article 8 of the Special Conditions).

Note: the purpose of the latter two procedures is for the Auditor to understand the Beneficiary(ies) responsibilities for reporting and access to staff and documents.

The Practical Guide ('PRAG') provides important information for grant contracts (e.g. basic rules and award procedures). Where necessary or useful reference will be made to the PRAG and / or its annexes.

The PRAG can be found at: <http://ec.europa.eu/europeaid/prag/document.do> (use the CTRL key to use link).

The latest key documents that are specifically related to grant contracts can be downloaded by clicking on PRAG, then on Annexes, then on Grants. The version indicated in the Call for Proposal and signed is the one to be used as reference.

1.2. Financial Report for the Grant Contract

The Auditor verifies that the Financial Report complies with the following conditions of Article 8 of the Grant Contract:

- The Financial Report must conform to the model approved by Managing Authority;
- The Financial Report should cover the eligible costs of the Action as a whole, regardless of which part of it is financed by the Contracting Authority;
- The Financial Report should be drawn up in the language of the Grant Contract and its assumed translation in Romanian;

1.3. Rules for Accounting and Record keeping

- The accounts kept by the Lead Beneficiary/Beneficiaries for the implementation of the Action must be a complete and accurate record of the real and authorised transactions financed by the grant;
- The Lead Beneficiary/Beneficiaries 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 Lead Beneficiary/Beneficiaries verifiable.

1.4. Reconciling the Financial Report to the Beneficiary(ies)'s Accounting System and Records

The Auditor reconciles the information in the Financial Report to the Beneficiary's accounting system and records (e.g. trial balance, general ledger accounts, sub ledgers etc.).

1.5. Exchange Rates

The Auditor verifies that the financial report for the Action is stated in the currency set out in the Special Conditions. The Auditor verifies that costs incurred in other currencies than the one used in the Beneficiary's accounts for the Action have been converted in accordance with the Beneficiary's usual accounting practices unless otherwise provided for in the Special Conditions.

2. PROCEDURES TO VERIFY CONFORMITY OF EXPENDITURE WITH THE BUDGET AND ANALYTICAL REVIEW

2.1. Budget of the Grant Contract

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

The Auditor verifies that the budget in the Financial Report corresponds with the budget of the Grant Contract (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Contract.

2.2. Amendments to the Budget of the Grant Contract

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

- requested an amendment to the budget and obtained an addendum to the Grant Contract if such an addendum was required (Article 15 of the Grant Contract).

3. PROCEDURES TO VERIFY SELECTED EXPENDITURE

3.1. Eligibility of Costs

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

(1) *Actual costs incurred (Article 8.1)*

The Auditor verifies that the actual expenditure for a selected item was incurred by and pertains to the Beneficiary(ies) or its (their) affiliated entity(ies). The Auditor should take into account the detailed conditions for actual costs incurred as set out in Article 8.1.(i) to (iii). For this purpose the Auditor examines supporting documents (e.g. invoices, contracts) and proof of payment. The Auditor 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 8.1a)*

The Auditor verifies that the expenditure for a selected item was incurred during the implementation period of the Action. An exception is made for costs relating to final reports including expenditure verification, audit and final evaluation reports of the Action and which may be incurred after the implementation period of the Action.

(3) *Budget (Article 8.1c)*

The Auditor verifies that the expenditure for a selected item was indicated in the Action budget.

(4) *Necessary (Article 8.1d)*

The Auditor 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 8.1e)*

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

(6) *Applicable legislation (Article 8.1f)*

The Auditor verifies that expenditure complies with the requirements of tax and social security legislation where this is applicable (for example: employer's part of taxes, pension premiums and social security charges).

(7) *Justified (Article 8.1g)*

The Auditor 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 supporting documents as specified in the Grant Contract.

(8) *Valuation*

The Auditor 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.

(9) *Classification*

The Auditor 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.

(10) Compliance with Procurement Principles and Nationality and Origin Rules

The Auditor verifies whether the Beneficiary has concluded implementation contracts with contractors as set out in Articles 9 and 8.1.a(iv) of the Grant Contract and to which expenditure (sub)heading(s), a class(es) of expenditure items or expenditure item(s) this applies.

The Auditor verifies for the expenditure items concerned whether the Beneficiary has complied with the principles for procurement and the nationality and origin rules as set out in Grant Contract.

For this purpose the Auditor inspects the underlying documents of the procurement and purchase process including where applicable proof of nationality and origin.

Where the Auditor finds issues of non-compliance, he/she reports the nature of such issues as well as their financial impact in terms of ineligible expenditure. When examining supporting documents the Auditor takes into account the risk indicators listed at the end of Annex 2B.

3.2. Eligible Direct Costs (Article 8.2)

- (1) The Auditor verifies that expenditure for selected items which are recorded under one of the direct costs headings (1 to 6) of the Financial Report, are covered by the direct costs as defined in Article 8.2 by examining the nature of these expenditure items.
- (2) The Auditor verifies that duties, taxes and charges, including VAT which are recorded under direct costs are **not recoverable** by the beneficiary(ies) and/ or its(their) affiliated entities. The Auditor obtains evidence that the Beneficiary(ies) and or its affiliated entities cannot reclaim the duties, taxes or charges, including VAT through an exemption system and/or a refund *a posteriori*. For this purpose the Auditor should refer to Annex E3a1 (Information on the tax regime) which provides information on the tax regime applicable to grant contracts (*Note*: the standard template / text is annexed to the PRAG and it can be found at the PRAG website mentioned at procedure 1.1 above).

In case Grand Contract provisions provides that duties, taxes and charges, including VAT are not eligible, but the "accepted costs system" is introduced: they remain ineligible costs, but they can be accepted as co-financing. Therefore the Auditor additionally verifies that the tax amount concerned is reported under heading 12 of the financial report, is properly computed, in line with supporting documents (e.g. invoices) and relate to eligible costs and cost items included under headings 1 to 10 of the Financial Report.

3.3. Contingency Reserve (Article 8.5)

The Auditor verifies that the provision for contingency reserve (heading 8 in Financial Report) does not exceed 5% of the direct eligible costs of the Action and that the Lead Beneficiary has obtained prior written authorisation from the Contracting Authority for the use of this contingency reserve.

3.4. Indirect costs (Article 8.3)

The Auditor verifies that the indirect costs to cover overhead costs (heading 10 in Financial Report) do not exceed the maximum percentage of the total final amount of eligible direct costs of the Action or the percentage established in article 3.3 of the Special Conditions of the Grant Contract if applicable.

3.5. In kind contributions (Article 8.6)

- (1) The Auditor verifies that the costs in the Financial Report do not include contributions in kind. Any contributions in kind (these should be listed separately in Annex III, Budget for the Action), do **not** represent actual expenditure and are not eligible costs.

3.6. Non-eligible costs (Article 8.7)

The Auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in Article 8.7 of the Grant Contract. These costs include *inter alia* currency exchange losses.

3.7. Revenues of the Action

The Auditor examines whether the revenues which should be attributed to the Action (including grants and funding received from other donors and other revenue generated by the Beneficiary as part of the Action have been allocated to the Action and disclosed in the Financial Report. For this purpose the Auditor inquires with the Beneficiary and examines documentation obtained from the Beneficiary(ies). The Auditor is not expected to examine the completeness of the revenues reported.

Annex 2B Guidelines for Specific Procedures to be performed

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

1. VERIFICATION EVIDENCE

When performing the specific procedures listed in Annex 2A, the Auditor 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.

The Auditor obtains verification evidence from these procedures to draw up the report of factual findings. Verification evidence is all information used by the Auditor 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 Lead Beneficiary/Beneficiary (Article 8.1.e) of the Grant Contract and in the Partnership Agreement;
- Expenditure must be easily identifiable and verifiable and traced to and within the Beneficiary's/Partner's accounting and bookkeeping systems;
- The Lead Beneficiary/Beneficiary 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 Lead Beneficiary/Beneficiary gives access to all documents and databases concerning the technical and financial management of the Action;
- Grant Contract and 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, records, accounting and supporting documents:

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

2. OBTAINING AN UNDERSTANDING OF THE TERMS AND CONDITIONS OF THE GRANT CONTRACT (ANNEX 2A — PROCEDURE 1.1)

The Auditor obtains an understanding of the terms and conditions of the Grant Contract. S/he should **pay particular attention to** Annex I of the Grant Contract (the Description of the Action), Annex II (Partnership Agreement) **which provides principles for procurement and nationality and origin rules.. Failure to comply with these principles or rules makes expenditure ineligible for EU financing.**

The Auditor ensures with the Beneficiary that the applicable principles for procurement and the nationality and origin rules are clearly identified and understood. If the Auditor finds that the terms and conditions to be verified are not sufficiently clear he/she should request clarification from the Beneficiary.

3. SELECTING EXPENDITURE FOR VERIFICATION (ANNEX 2A — PROCEDURES 3.1 – 3.7)

The expenditure claimed by the Lead Beneficiary in the Financial Report is generally presented under the following expenditure headings: 1. Human Resources, 2. Travel, 3. Equipment and Supplies, 4. Local office, 5. Other costs, services, 6. Other, 8. Provision for contingency reserve and 10. Indirect 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 Salaries.

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 (e.g. 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 the underlying actions or transactions, whatever the type and nature of the action or transaction concerned.

Value should be the principal factor used by the Auditor to select expenditure items or classes of expenditure items for verification. The Auditor 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 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).

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

The Auditor may apply statistical sampling techniques for the verification of one or more expenditure headings or subheadings of the Financial Report. The Auditor 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 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') is the total amount of expenditure verified by the Auditor, expressed as a percentage of the total amount of expenditure reported by the Lead Beneficiary in the Financial Report. This amount is reported in Annex V of the Grant Contract.

The Auditor ensures that the overall ECR is at least **65 %**. If he/she finds an exception rate of less than 10% of the total amount of expenditure verified (i.e. 6.5%) the Auditor finalises the verification procedures and continues with reporting.

If the exception rate found is higher than 10% the Auditor extends verification procedures until the ECR is at least **85 %**. The Auditor then finalises verification procedures and continues with reporting regardless of the total exception rate found. The Auditor 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 verifies the selected expenditure items by carrying out procedures 3.1–3.11 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 quantifies the amount of verification exceptions found and the potential impact on the EU contribution, should the Commission declare the expenditure item(s) concerned ineligible (taking into account the percentage of funding by the Commission and the impact on indirect expenditure (e.g. administrative costs, overheads)). The Auditor reports all exceptions found, including those for which he/she cannot quantify the amount of the verification exception found and the potential impact on the EU contribution.

Example: if the Auditor finds an exception of € 1 000 with regard to procurement principles for a grant contract where the EU finances 60% of the expenditure and where indirect costs represent 7% of total direct eligible expenses, the Auditor reports an exception of € 1 000 and a financial impact of 642€ ($€ 1\,000 \times 60\% \times 1.07$).

Specific guidance for procedure 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 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.

RISK INDICATORS PROCUREMENT

- Inconsistencies in the dates of the documents or illogical sequence of dates. Examples:
 - Tender dated after the award of contract or before the sending of the invitations to tender
 - Tender by the winning tenderer dated before the publication date of the tender or dated significantly later than tenders from other tenderers
 - Tenders by different candidates all having the same date
 - Dates on documents not plausible/consistent with dates on accompanying documentation (e.g. date on the tender 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 tenders by candidates participating in the same tender. Examples:
 - Same wording, sentences and terminology in tenders from different tenderers
 - Same layout and format (e.g. font type, font size, margin sizes, indents, paragraph wrapping, etc.) in tenders from different tenderers
 - Similar letterhead paper or logos
 - Same prices used in tenders from different tenderers for a number of subcomponents or line items
 - Identical grammar, spelling or typing errors in tenders from 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 the 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 a privileged relationship with tenderers:
 - The same tenderer (or small group of tenderers) is invited with unusual frequency to tender for different contracts
 - The same tenderer (or small group of tenderers) wins an unusually high proportion of the bids
 - A tenderer is frequently awarded contracts for different types of goods or services
 - The winning tenderer invoices additional goods not provided for in the tender (e.g. additional spare parts invoiced without clear justification, installation costs invoiced although not provided for in the tender).
- 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.)

AHHEX 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).

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 approved by Managing Authority;
- The Consolidated Financial Report should cover the combined expenditure for the Action of Beneficiary and all its Partners, regardless of which part of it is financed by the 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.

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.

Annex 3A Model Report for Expenditure Verification of an EU Grant Contract

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 pointed brackets <.....> (e.g. <name of the Lead Beneficiary>) must be filled in by the auditor.

<To be printed on AUDITOR'S letterhead>

Report for an Expenditure Verification of a Grant Contract

External Actions of the European Union

<Title of and number of the grant contract >

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2 Procedures performed and Factual Findings

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Report of Factual Findings

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

< name of the Lead Beneficiary>

<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 Union 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 for the Grant Contract between you and <the European Commission or the name of another contracting authority> the ‘Contracting Authority’. 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.

Standards and Ethics

Our engagement was undertaken in accordance with:

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 Contracting Authority requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*;

Procedures performed

As requested, we have only 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 Contracting Authority and the procedures were performed solely to assist the Contracting 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.

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 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 EUR <xxxxxxx>.

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 is the 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 under the Grant Contract as per your Payment Request of <dd Month yyyy>.

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 above under objective.

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

The Contracting 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 Contracting Authority, who may rely upon this expenditure verification report at its own risk and discretion. The Contracting 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 Contracting Authority may only disclose this Report to others who have regulatory rights of access to it, in particular the European Commission (~~Delete if the Commission is the Contracting Authority~~), 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,

Auditor's signature [person or firm or both, as appropriate and in accordance with company policy]

Name of Auditor signing [person or firm or both, as appropriate]

Auditor's address [office having responsibility for the engagement]

Date of signature <dd Month yyyy> [date when the final report is signed]

1 Information about the grant contract

<Chapter 1 should include a brief description of the Grant Contract and the Action, the Lead Beneficiary/Beneficiary(ies)/Affiliated entity(ies), and key financial/budget information (maximum 1 page).>

2 Procedures performed and factual findings

We have performed the following specific procedures listed in Annex 2A of the terms of reference for the expenditure verification of the Grant Contract ('ToR'):

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 any difficulties or problems encountered>

The total expenditure verified by us amounts to EUR <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 Lead Beneficiary, 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

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

<Describe factual findings and specify errors and exceptions. **Procedures 1.1–1.6 in Annex 2A. If there are no factual findings, this should be explicitly stated as follows for each procedure: 'No factual findings have arisen from this procedure'.**>

1.2 Financial Report for the Grant Contract

1.3 Rules for Accounting and Record Keeping

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

1.5 Exchange Rates

1.6 Simplified Cost Options

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. If there are no factual findings this should be explicitly stated as follows for each procedure: ‘No factual findings have arisen from this procedure’.>

3 Procedures to verify selected Expenditure

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

We have quantified the amount of the verification exceptions found and the potential impact on the EU 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, overheads)). We have reported all the exceptions found, including the ones for which we cannot quantify the amount or the potential impact on the EU contribution.

<Specify the expenditure amounts / items for which exceptions (= deviations between facts and criteria) were found, and the nature of the exception — this means which of the specific condition(s) described in point 3.1– 3.7 of Annex 2A of the ToR were not respected. Quantify the amount of verification exceptions found and the potential impact on the EU 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 €6500 included in subheading 3.2 (furniture, computer equipment) of the Financial Report was not eligible. An amount of €2000 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).>

3.2 Eligible Direct Costs (Article 8.2)

3.3 Contingency Reserve (Article 8.5)

3.4 Indirect Costs (Article 8.3)

3.5 In kind contributions Article 8.6)

3.6 Non-eligible costs (Article 8.7)

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 for the Grant Contract

<Annex 1 should include the Beneficiary's financial report for the Grant Contract which is 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 of this Grant Contract including **Annex 1** (information about the Grant Contract) **and Annex 2A** (Listing of the specific **procedures** to be performed).>

Annex 3B Model Report for checking the compilation of 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 pointed brackets <.....> (e.g. <name of the Lead Beneficiary>) must be filled in by the auditor.

<To be printed on AUDITOR'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 Union

<Title of and number of the grant contract >

Report of Factual Findings

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

< name of the Lead Beneficiary>

<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 Union 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 only 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 Contracting Authority and the procedures were performed solely to assist the Contracting 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 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> EUR.

(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 were noted by us arising from the conduct of the agreed-upon procedures listed in Annex 2.

Use of this Report

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

This report is prepared solely for your own confidential use and solely for the purpose of submission by you to the Contracting Authority in connection with the requirements as set out in the Grant Contract. This report may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

The Contracting 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 Contracting Authority, who may rely upon this expenditure verification report at its own risk and discretion. The Contracting 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 Contracting Authority may only disclose this Report to others who have regulatory rights of access to it, in particular the European Commission (Delete if the Commission is the Contracting Authority), 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,

Name of Auditor signing [person or firm or both, as appropriate]

Annex 1 Financial Report

[Annex 1 should include the Lead Beneficiary's/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 Lead Beneficiary/Beneficiaries, a compilation working paper providing an audit trail for each number in the Consolidated Financial Report back to the underlying verified financial reports.]