



## GUIDANCE NOTES

# **Report of Factual Findings on the Final Financial Report Type II**

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## **INTRODUCTION**

These guidance notes have been compiled to guide beneficiaries of grants from the Education, Audiovisual and Culture Executive Agency – EACEA (hereafter the Agency) and external auditors in the preparation of the Report of Factual Findings on the Final Financial Report – Type II.

The objective of these guidance notes is to give an overview of the requirements and provisions which are of importance in claiming costs for reimbursement and hence in the certification of the Final Financial Report.

This document is composed of four sections:

- Section I: Purpose and content of the Report of Factual Findings on the Final Financial Report – Type II
- Section II: Practical guidelines for the beneficiary and background documents
- Section III: Glossary
- Section IV: Engagement Letter for the Report of Factual Findings on the Final Financial Report– Type II

## **I. PURPOSE AND CONTENT OF THE REPORT OF FACTUAL FINDINGS ON THE FINAL FINANCIAL REPORT – TYPE II**

### **I.1. General principles**

The Report of Factual Findings on the Final Financial Report – Type II is an independent report produced by an auditor.

The purpose of the Report is to provide the Agency with a reasonable assurance that the costs as well as the receipts have been declared by the beneficiary<sup>1</sup> in the Final Financial Report in accordance with the relevant legal and financial provisions of the Grant Agreement.

**N.B: The submission of a Report of Factual Findings on the Final Financial Report – Type II does not mean that the Agency, the Commission or the Court of Auditors waive their rights to carry out their own audits<sup>2</sup>.**

Notwithstanding the procedures to be carried out, the beneficiary remains at all times responsible and accountable for the accuracy of the Final Financial Report. A beneficiary that has been found guilty of making false declarations or has been found to have seriously failed to meet its obligations under the Grant Agreement shall be liable to financial penalties according to Article II.17 of the Grant Agreement.

The auditor has a contractual relationship solely with the beneficiary. The auditor does not have a contractual relationship with the Agency and the Agency will not intervene in any dispute between the auditor and the beneficiary.

The auditor shall ensure that the work has been undertaken:

- in accordance with the International Standard on Related Services ('ISRS') 4400 *Engagements to perform Agreed-upon Procedures regarding Financial Information* as promulgated by the International Auditing and Assurance Standards Board (IAASB) of IFAC;
- in compliance with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA) of IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Agency requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

### **I.2. Auditors eligible to deliver the Report of Factual Findings on the Final Financial Report – Type II**

Each beneficiary is free to choose a qualified external auditor, including its statutory external auditor, provided that the following cumulative requirements are met:

- the external auditor must be **independent** from the beneficiary;
- the external auditor must be **qualified** to carry out statutory audits of accounting documents in accordance with national legislation implementing the Directive on statutory audits of annual accounts and consolidated

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<sup>1</sup> For the purpose of these guidance notes, the term 'beneficiary' refers both to the beneficiary (coordinator) and co-beneficiaries (partners). For further details please refer to the 'Glossary'.

<sup>2</sup> The Agency may at any time during the Grant Agreement/Decision and up to five years after the closure of the action, arrange for audits to be carried out as explained in article II.27 of the Grant Agreement.

accounts<sup>3</sup> or any European Union legislation replacing this Directive. A beneficiary established in a third country must comply with equivalent national regulations in the audit field.

In accordance with Article II.23 of the Grant Agreement, public bodies have the choice between an external auditor and a competent public officer<sup>4</sup>. A preliminary condition is that this competent public officer was not involved in any way in drawing up the Final Financial Report and that he/she is not hierarchically dependent on the officer responsible for the Final Financial Report. Moreover, to be in the position of delivering the report, the public officer should meet at least one of the following competency criteria:

- 1) Professional experience: minimum three years' professional experience in one of these fields: accounting, financial, taxation and auditing;
- 2) Qualifications: a level of education which corresponds to completed university studies of at least 4 years attested by a diploma in the accounting, finance and/or auditing field, or professional training/a professional qualification of an equivalent level relevant to these fields.

In choosing an auditor to draw up the Report on the Final Financial Report, the beneficiary must also ensure that no conflict of interest exists between the chosen auditor and the beneficiary. A conflict of interest arises when the auditor's objectivity in drawing up the Report is compromised in fact or in appearance because, for instance, the auditor:

- was involved in the preparation of the Final Financial Report;
- stands to benefit directly should the Report of Factual Findings be accepted;
- has a close relationship with any person representing the beneficiary;
- is a director, trustee or partner of the beneficiary;
- is in any other situation that compromises his/her independence or ability to establish the Report impartially.

### **I.3. Reimbursement of the costs of the certification**

The cost of the certification and the production of the **Report of Factual Findings on the Final Financial Report – Type II** is an **eligible cost** in the Grant Agreement for which the certification is submitted (Article II.19 of the Grant Agreement).

The cost of the certification is a direct cost and may be charged in the respective category of the budget, as specified in the call for proposal and in the detailed budget tables attached to the project proposal/application.

The price charged for certification is subject to the general eligibility criteria of the Grant Agreement and should take account of relevant market prices for similar services. Excessive or reckless audit expenditure will be rejected.

The auditor invoices the beneficiary directly, giving a breakdown of the amount of fees charged, travel & subsistence reimbursement(s) as well as the VAT applied.

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<sup>3</sup> Directive 2006/43/EC 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.

<sup>4</sup> See 'Glossary' for a definition of 'competent public officer'.

The Agency will not pay the costs of developing methodology. The eligible costs are limited to the performance of the agreed-upon procedures (Annex II to the engagement letter) and exclude any costs relating to consultancy for improvement or refinement of the methodology.

## **II. PRACTICAL GUIDELINES FOR THE BENEFICIARY AND ESSENTIAL BACKGROUND DOCUMENTS**

In order to avoid delays in the submission of the Report, the beneficiary should select and contract the auditor well in advance. An engagement letter should be signed by both the beneficiary and the auditor.

A model for the engagement letter is provided in Section IV of these guidance notes.

As a first step, it is essential that the auditor fully understands the requirements of the certification and is provided with a complete set of the documents necessary for the certification.

- Auditor's role:

The auditor's role is to report factual findings and form an independent opinion on the compliance of the costs declared in Final Financial Report with the provisions of the grant agreement. In this context, it is crucial that the Agency specifies in detail the procedures to be undertaken and that the auditor reports the factual findings observed as a result of performing those procedures, including the eligibility of costs and exceptions<sup>5</sup>, since these will form the basis for the Agency's acceptance of the beneficiary's Final Financial Report.

- Supporting documents:

In addition to the normal supporting documents needed to perform the required testing procedures, the following documents may serve as a basis for certification (the list is not exhaustive):

- Call for proposals
- Project application
- Grant Agreement signed between the beneficiary and the Agency, or Grant, including the General Conditions (in particular part B, which sets out the financial provisions), any amendments, and the Annexes, i.e. 'Description of Work', 'Budget', etc.
- Guidelines for the Use of the Grant, Programme Guide, Frequently Asked Questions
- The present guidance notes

### **II.1. Submission of the Report of Factual Findings on the Final Financial Report – Type II**

The beneficiary is required to submit to the Agency a Report of Factual Findings on the Final Financial Report – Type II produced by an auditor in support of the payment request under Article I.4 of the Grant Agreement.

The agreed-upon procedures as defined by the Agency are performed to assist the Agency in evaluating that the costs claimed by the beneficiary in the Final

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<sup>5</sup> See 'Glossary' for a definition of 'exception'.

Financial Report have been claimed in accordance with the provisions of the Grant Agreement.

The external auditor or competent public officer must use the reporting format attached in Annex 3 to the Engagement Letter (see Section IV).

The Report of Factual Findings on the Final Financial Report – Type II is composed of two documents:

- the auditor's Report of Factual Findings to be issued on the auditor's letterhead and dated, stamped and signed by the auditor (or competent public officer)
- The cost breakdown relating to the Action (conforming to the template provided by the Agency, i.e. the Excel Final Financial Statement), compiled, dated and signed the beneficiary and countersigned<sup>6</sup> by the auditor (or competent public officer):  
[http://eacea.ec.europa.eu/erasmus-plus/beneficiaries-space/capacity-building-in-higher-education\\_en](http://eacea.ec.europa.eu/erasmus-plus/beneficiaries-space/capacity-building-in-higher-education_en)

The Report of Factual Findings on the Final Financial Report – Type II must be written in English, French or German.

## **II.2. Procedures to be carried out for the Report of Factual Findings on the Final Financial Report – Type II**

The Agency has designed these procedures in order to obtain standardised and comparable reports from all auditors, who are expected to carry out the procedures without adaptation for the particular circumstances of the beneficiary. In particular, the minimum percentage of expenditure verified must be respected, and all procedures have to be carried out in full and **unaltered**.

Where the auditor is not able to carry out or complete a procedure or where the auditor's factual findings are not consistent with the Final Financial Report or the provisions of the Grant Agreement, then an exception should be reported (see Section II.3.6). The Agency will consider each exception in the context of the report as a whole and any other evidence at its disposal. Consequently, the Responsible Authorising Officer will look at eligibility decisions on a case-by-case basis using the evidence provided.

## **II.3. List of Procedures to be performed and specific guidance**

### ***1. General procedures***

#### ***1) Terms and Conditions of the Grant Agreement***

The auditor obtains an understanding of the terms and conditions of the Grant Agreement by reviewing:

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<sup>6</sup> i.e. by counter-signing, dating and stamping the copy of the list of invoices the auditor (or competent public officer) will confirm that the costs and the revenues declared in the Final Financial Report respect the provisions of the agreed-upon-procedure.

- a signed copy of the Grant Agreement, its annexes and other relevant information. Particular attention should be paid to the Description of the Action and the Budget;
- the Final Financial Report (which includes a narrative and a financial section).

2) Beneficiary's legal and VAT status (not applicable for costs reimbursed on the basis of "unit costs")

- The auditor confirms the legal status of the beneficiary, and thus determines the treatment of VAT (deductible or not).
- Deductible VAT means that VAT is recoverable by the beneficiary under the national 'VAT system' (i.e. the system of collection and deduction under the national VAT legislation) is not an eligible cost. The final financial report should exclude deductible VAT amounts.
- Conversely, if VAT is NOT deductible, it is an eligible cost for the Final financial statement.
- In the framework of his/her work, the auditor is expected to verify the necessary supporting documents provided by the beneficiary and clearly confirm their status as regarding VAT treatment. Specific rules contained in Article II.19.4 of the Grant Agreement on VAT apply.

3) Final Financial Report and the Grant Agreement

- The Final Financial Report must conform to the model annexed to the Grant Agreement;
- The Final Financial Report should cover the Action or the Work Programme as a whole, regardless of which part of it is financed by the Agency.

4) Rules for Accounting and Record Keeping

The auditor examines whether the beneficiary has complied with the rules for accounting and record keeping in accordance with Articles II.19, II.20 and II.27.2 of the Grant Agreement;

- The accounts kept by the beneficiary for the implementation of the Action must be accurate, up-to-date and exhaustive (including all expenditure and income);
- The auditor examines whether the beneficiary has a double-entry book-keeping system;
- The income and expenditure relating to the Action must be easily identifiable and verifiable;

5) Exchange Rates (not applicable for costs reimbursed on the basis of "unit costs")

The auditor verifies that amounts of expenditure incurred in a currency other than the euro have been converted in accordance with the provisions of the Grant Agreement. Where the beneficiary is



required to use the website of the Commission, this refers to InforEuro<sup>7</sup>.

## **2. *Verification evidence***

The beneficiary will allow the auditor 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 will allow the auditor access to all documents and databases concerning the technical and financial management of the Action (Article II.27 of the Grant Agreement). **It should also be noted that it is the beneficiary's responsibility to obtain the accounting documents necessary to enable the auditor to verify costs incurred by co-beneficiaries / project partners.**

Supporting documentation must be available in the form of original documents for the beneficiary (or certified copies of originals for the co-beneficiaries) rather than photocopies or facsimiles.

If the auditor finds that the above criteria for evidence are not sufficiently met, this should be reported as an exception.

## **3. *Procedures to verify the conformity of expenditure with the budget and analytical review***

- The auditor carries out a substantive review of the expenditure headings in the Final Financial Report;
- The auditor verifies whether there have been amendments to the budget of the Grant Agreement;
- The auditor verifies that the budget in the Final Financial Report corresponds<sup>8</sup> to the budget of the Grant Agreement (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Agreement;
- The auditor verifies any transfers between budget headings by comparing the initial budget with the budget in the Final Financial Report and checks that the provisions of Articles I.8 and II.12 of the Grant Agreement have been complied with.

## **4. *Selecting expenditure for verification and Expenditure Coverage***

The expenditure claimed by the beneficiary in the Final Financial Report is presented in the budget form provided in the Grant Agreement.

Expenditure headings can be broken down into expenditure subheadings. Expenditure subheadings can be broken down into individual expenditure

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<sup>7</sup> [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/inforeuro/inforeuro\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm)

<sup>8</sup> Some degrees of flexibility in the implementation of the budget are allowed. The rule proposed in the grant agreement is that changes of up to 10% of each item/heading (+ or -) are allowed without amendment, and will remain eligible. Please verify the rule in the grant agreement (some grant agreements have 15% or 20% flexibility). Any changes within the limit specified in the grant agreement didn't require the beneficiary's request for amending the grant agreement.

Changes above the limit did require an amendment of the budget annexed to the grant agreement. If such request was not approved by the Agency, the costs exceeding the limit should be considered ineligible.

items or classes of expenditure items with the same or similar characteristics.

### **What percentage of expenditure needs to be verified by the auditor?**

The Expenditure Coverage Ratio ('ECR') represents the total amount of expenditure verified by the auditor expressed as a percentage of the total amount of expenditure reported by the beneficiary in the Final Financial Report (i.e. funded from EU funds and other sources).

The auditor ensures that the overall ECR is at least 70%. If the exception rate is less than 10% of the total amount of expenditure verified (i.e. 7% of total expenditure), the auditor finalises the verification procedures and continues with reporting.

If the exception rate is greater than 10%, the auditor is required to extend the verification procedures until the ECR is at least 85%.

In addition to reaching the minimum coverage of total expenditure stated in the previous two paragraphs, the auditor must ensure that the ECR for each expenditure heading in the Final Financial Report is at least 10%.

### **On what basis should expenditure items be selected for verification?**

In order to both meet the minimum ECR above and ensure that the expenditure verification is systematic and representative:

- value should be the principal factor used by the auditor, i.e. an appropriate number of high value expenditure items should be selected; and
- otherwise, the population selected for testing should be selected on a random basis in order to produce a representative sample.

## **5. *Procedures to verify selected expenditure***

The Report of Factual Findings on the Final Financial Report - Type II is intended to verify the costs incurred by the beneficiary within the framework of the Grant Agreement for an Action reimbursed through a mixed financing system: (1) reimbursement based on eligible costs (or "actual costs") and (2) unit costs.

The following substantive procedures are required to be performed by the auditor in order to verify expenditure for items financed through actual costs and outputs produced for items financed through unit costs. These procedures are different depending on the category of costs:

- (1) costs financed through eligible costs actually incurred, or "actual costs": Equipment and Subcontracting;
- (2) costs financed through a reimbursement on the basis of "unit costs": Staff costs, Travel costs and Costs of stay.

(1) Eligibility of costs for "Actual costs"

For the purpose of these guidance notes, this heading refers to the following categories of costs, financed through eligible costs actually incurred, or "actual costs": Equipment and Subcontracting.

All costs must be justified by the relevant supporting documents.

The auditor verifies, for each expenditure item selected, that the eligibility criteria set out below have been met.

– Costs actually incurred<sup>9</sup>

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

The auditor verifies that the monetary value of a selected expenditure item is in line with underlying documents (e.g. invoices, payroll documents) and that correct exchange rates are used where applicable.

– Cut-off - Implementation period:

The auditor verifies that the expenditure for a selected item was incurred during the period of implementation or eligibility in accordance with Article I.2 of the Grant Agreement. Invoices received during the eligibility period but not yet paid, as well as costs relating to the Final Financial Report, should be reported by the auditor under the 'exceptions'. The costs relating to the Final Financial Report should be reasonable and in line with the provisions of Article II.19 of the Grant Agreement.

– 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 Final Financial Report.

– Necessary / connected<sup>10</sup>

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 together with supporting documents.

– Sound financial management / economy<sup>11</sup>

For each selected item, the auditor verifies that the price paid for the goods/services does not represent expenditure that has been incurred excessively or recklessly<sup>12</sup>.

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<sup>9</sup> Article II.19 of the Grant Agreement.

<sup>10</sup> Article II.19 of the Grant Agreement.

<sup>11</sup> Article II.19 of the Grant Agreement.

<sup>12</sup> See 'Glossary' for a definition of 'excessive or reckless expenditure'.

- Compliance with sub-contracting rules:  
Where applicable, the auditor checks that the sub-contracted tasks or activities have been provided for in the initial budget or have been approved by the Agency.
- Compliance with procurement rules:  
Where applicable, the auditor examines which procurement rules (as provided for by the Grant Agreement) apply for any given expenditure (sub)heading, class of expenditure items or expenditure item. The auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents of the procurement and purchase process, e.g. tenders/quotes. Where the auditor finds instances of non-compliance with procurement rules, the nature thereof as well as their financial impact in terms of ineligible expenditure should be reported as an exception.
- Compliance with eligibility of costs:  
The auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in Article I.10.4 and II.19.4 of the Grant Agreement as well as in Section "Ineligible Costs" of the Guidelines for the Use of the Grant.

### **Which documents should the beneficiary prepare for the auditor?**

For most transactions in these cost categories, the original third-party invoices (or certified copies for co-beneficiaries), proofs of payment and documents on tendering procedures (when applicable) should be sufficient proof of expenditure.

### **What are the most common errors made by beneficiaries for Equipment and Subcontracting?**

- General: invoices are not detailed enough to establish a clear connection to project activities.
- Deductible VAT is included in the invoice and charged as project expenditure;
- Tendering procedure is not applied for the purchase of goods or services exceeding 25.000 EUR, or applicable national legislation is not applied where the estimate value of a contract to be awarded exceeds EUR 134.000;
- Purchase of equipment is split into smaller contracts with individual amounts lower than the 25.000 EUR threshold;
- Proof of expenditure is a pro-forma invoice, an offer or a quotation instead of an invoice.

The guidance provided above is of a generic nature meant to draw attention to these matters. However, it is recommended that the beneficiary and auditor refer to relevant chapters of the Guidelines for the Use of the Grant and Programme Guide for detailed guidance on both cost eligibility and documentary requirements for Equipment and Subcontracting.

## (2) Eligibility of costs for "Unit costs"

For the purpose of these guidance notes, this heading refers to the following categories of budget items, financed through a reimbursement on the basis of "unit costs": Staff costs, Travel costs and Costs of stay.

Financial reporting for this type of costs will be based on the principle of the "triggering event". Beneficiaries will have to prove that the activities have been actually and properly implemented and the output produced. As a consequence, beneficiaries will have flexibility in the way they manage the funds awarded to cover the corresponding expenses.

Beneficiaries do not need to justify the level of spending. The supporting documents will have to demonstrate that the volume and/or the nature of the activities actually implemented, justify the number of unit costs charged to the grant.

### (a) Staff costs

The auditor verifies that Staff costs are reported according to the rules set out in the supporting documents specified in section II, in particular the Guidelines for the Use of the Grant (Section "Specific rules by budget heading - Staff Costs").

For this purpose, considering that the calculation of the grant is based exclusively on the application of the unit costs and is independent from the actual remuneration of the staff involved, the auditor verifies that:

- unit costs were applied according to the correct staff category and applicable country category;
- the number of unit costs declared by the beneficiary corresponds to the total number of days worked for the implementation of the project by the staff member concerned.

For the verification of the relation between the workload declared and the results/outputs of the project, the auditor verifies that there is a reasonable assurance that the volume of working days reported (in accordance with the national legislation and/or internal practices for what concerns the minimum requirements in terms of time worked per day) is justified by the volume of results achieved and/or of tangible outputs produced

As a general rule, declared working days per individual may not exceed 20 days per month or 240 days per year.

In addition, the auditor verifies the employment status and conditions of employment of the personnel.

For the employees selected, the auditor checks that they:

- were hired<sup>13</sup> by the beneficiary<sup>14</sup> in accordance with its national legislation;

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<sup>13</sup> See 'Glossary' for a definition of 'directly hired'.

- were:
  - employed by the Institution and they were part of its payroll system, or;
  - were natural persons\* assigned to the project on the basis of a contract against payment;
- were performing tasks directly necessary to the achievement of the objectives of the project;

*\* A natural person (individual) can be assigned to the action also on the basis of e.g. a civil contract, a free-lance contract, an expert contract, a service contract with self-employed person ("in house consultant) or a secondment to the Institution against payment. The costs of such natural persons working under the action may be assimilated to the costs of personnel, if:*

*(i) the person works under conditions similar to those of an employee (in particular regarding the way the work is organised, the tasks that are performed and the premises where they are performed); and*

*(ii) the result of the work belongs to the Institution (unless exceptionally agreed otherwise); and*

*(iii) the costs are not significantly different from the costs of staff performing similar tasks under an employment contract within the institution.*

Any employment condition that does not meet these criteria must be reported by the auditor under the category 'exception'.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned, the auditor should accept certified copies.

### **What is the objective of this procedure?**

The Agency seeks to ensure that reported staff costs relate to employees of the beneficiary carrying out the Action, and have not been 'outsourced' to a different entity, unless priory authorised by the Agency. The Agency also seeks to ensure that no special employment conditions are applied which do not form part of the normal practice of the beneficiary.

### **Which documents should the beneficiary prepare for the auditor?**

- Employment contracts for the staff in question, as well as standard employment contracts in use for personnel who perform a variety of work for the beneficiary (i.e. are not

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<sup>14</sup> Reminder of footnote n° 2: for the purpose of these guidance notes, the term 'beneficiary' refers both to the beneficiary (coordinator) and co-beneficiaries (partners). For further details please refer to the 'Glossary'.

exclusively devoted to an EU-funded project or Work Programme).

- A duly filled-in Joint Declaration<sup>15</sup> (Template provided by the Agency and available in its website) for each person for whom staff costs have been charged to the project. The declaration must be signed by the person concerned, then signed and stamped by the person responsible in the Institution where this person worked for the project. The Institution must be a member of the partnership.
- If the staff member performs tasks corresponding to different categories of staff, a separate Joint Declaration must be signed for each category.
- Time-sheets must be signed by the person concerned and countersigned by the person responsible in the employing institution. They must indicate the following:
  - the project reference
  - the name of the person performing the tasks, his/her position and the staff category
  - the institution and the country where the person is employed
  - the number of days worked for the corresponding month and year
  - the description of the tasks performed, the outputs produced and the related work package.
- Any material evidence allowing to verify that the declared workload corresponds to actual activities/outputs (e.g. attendance lists for lectures given, tangible outputs / products, salary slips, etc.).
- The auditor should verify if any prior authorisation from the Agency was granted for Staff costs.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned, the auditor should accept certified copies.

### **What kind of information would give rise to exceptions?**

Any deviation from the above principles should be highlighted by the auditor as an exception. Some examples have been provided below (list not exhaustive).

Exceptions should be highlighted if no reasonable activity or output could be verified for the working days declared.

Exceptions should be highlighted if there is no reasonable assurance that the number of unit costs declared corresponds to the

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<sup>15</sup> For projects selected in 2015 that have already collected signed "Staff conventions", it is not necessary to sign new "Joint declarations".

number of working days dedicated to the project in terms of workload and tangible outputs.

Exceptions should be highlighted if there are indications in the employment contract that the employee has been hired by a different legal entity.

Exceptions should be highlighted if the employment relation between the staff member and the employing organisation is questioned.

(b) Travel costs and costs of stay

The auditor verifies that *Travel costs and costs of stay* costs are reported according to the rules set out in the supporting documents specified in section II, in particular the Guidelines for the Use of the Grant (Section "Travel costs and Costs of Stay").

Considering that the calculation of the grant is based exclusively on the application of the unit costs and is independent from the level of spending for the staff and students involved, the auditor verifies that the volume and/or the nature of the activities actually implemented justify the number of unit costs charged to the grant.

In particular the auditor verifies that the journeys actually took place and they are connected to specific and clearly identifiable project-related activities.

In addition, the auditor verifies that:

- for Travel costs, the distance travel bands have been applied correctly;
- for Costs of Stay, the number of unit costs declared corresponds to the actual number of days of the activities (including the travel). Unit costs can be declared for each day spent on the activity (including the travel period), independently from the time of departure or arrival.

Beneficiaries do not need to justify the level of spending.

Any condition that does not meet these criteria must be reported by the auditor under the category 'exception'.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned, the auditor should accept certified copies.

**Which documents should the beneficiary prepare for the auditor?**

- Any proof that the journeys actually took place and are connected to specific and clearly identifiable project-related activities.



- A duly filled-in Individual Travel Report (Annex III of the Guidelines for the Use of the Grant). Supporting documentation will have to be attached to each travel report in order to demonstrate the fact that the travel and the activity actually took place (e.g. travel tickets, boarding passes with points of departure and destination, dates and name of the person travelling, invoices, receipts, proof of attendance in meetings and/or events, agendas, tangible outputs/products, minutes of meetings).
- The auditor should verify if any prior authorisation from the Agency was granted for Travel and/or costs of stay.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned, the auditor should accept certified copies.

### **What kind of information would give rise to exceptions?**

Any deviation from the above principles should be highlighted by the auditor as an exception.

### **What Travel costs and costs of stay costs are not considered eligible or should be regarded as exceptions?**

Exceptions should be reported for:

- Travel costs and costs of stay which do not correspond to concrete outputs in terms of activities linked to the projects, or which cannot be justified by supporting documents demonstrating that the travel took place for the duration of the journey;
- Travels of students or staff not enrolled in or employed by a beneficiary organisation;
- Travels outside the partnership countries;
- Travels shorter than the minimal or exceeding the maximum duration.

## **6. *Quantification of exceptions***

Wherever possible, the auditor quantifies the full amount of the verification exceptions found. For example, if the auditor finds an exception of EUR 1 000 with regard to procurement rules for a Grant Agreement where the EU finances 60 % of the expenditure, the auditor reports an exception of EUR 1 000 and a financial impact of EUR 600 (EUR 1 000 x 60%).

Furthermore, the description of the exception should be sufficiently detailed to enable the Agency to determine which expense item in the Final Financial Report the exception relates to. The wording in the 'factual

findings' paragraph of the report format (Section IV, Annex 3) allows details of all exceptions to be provided in the form of an Annex.

The auditor's attention is drawn to the fact that favourable exceptions, i.e. exceptions increasing eligible expenditure, are not permitted.

**7. *Procedures to verify revenues***

The auditor examines whether revenues which should be attributed to the Action (including *inter alia* grants and funding received from other donors, revenue generated by the Action, contributions in kind, have been allocated to the Action and disclosed in the Final Financial Report. For this purpose the auditor should consult the beneficiary and examine documentation obtained from the beneficiary, e.g. income accounts in the General Ledger.

### **III. GLOSSARY**

#### **ACCOUNTING RECORDS**

The accounting records are the accounting entries and the documents supporting the statutory financial statements and/or reporting requirements, as well as the internal procedures, reports or other documents necessary to understand the accounting system of the beneficiary/co-beneficiaries.

The accounting records include, *inter alia*:

- Accounting entries:
  - Accounting journals
  - General ledger
  - Cash book
  - Inventory register / fixed assets register
- Supporting documents
  - Sales and purchase invoices
  - Delivery notes, in particular for fixed assets
  - Credit notes
  - Salary slips
  - Bank statements
  - Employment contracts / sub-contracting contracts
- Other documents
  - Rules applied for depreciation
  - Internal rules for reimbursement of travel expenses

#### **ACTION (PROJECT)**

Activities carried out by the beneficiary and co-beneficiaries as described in Annex I of the Grant Agreement.

#### **RESPONSIBLE AUTHORISING OFFICER (RAO)**

The Agency's legal representative and signatory of the Grant Agreement.

#### **BENEFICIARY and CO-BENEFICIARIES**

For the purpose of these guidance notes, the term 'beneficiary' refers both to the beneficiary (coordinator) and co-beneficiaries (partners). It should be noted, however, that for the purposes of the call for proposal and the Grant Agreement it should be understood that:

- The beneficiary is the organisation that, on behalf of the partners (defined as co-beneficiaries) has signed an agreement with the Agency. The beneficiary has the primary legal responsibility towards the Agency for the proper execution of the agreement; he/she also is responsible for the day-to-day coordination and management of the Action and for the usage of the EU funds allocated to the Action.
- The co-beneficiaries are the partners (or consortium) involved in the Action.

#### **COMPETENT PUBLIC OFFICER**

A public servant entitled to carry out an audit and/or financial verification as part of his/her duties (e.g. internal or external auditor).

## **DIRECTLY HIRED (STAFF)**

Statutory staff, having either a permanent or a temporary employment contract with the beneficiary/co-beneficiaries. The costs of directly hired staff should be processed through the organisation's payroll.

## **EXCESSIVE OR RECKLESS EXPENDITURE**

Excessive expenditure should be understood as paying significantly more for products, services or personnel than the prevailing market rates, resulting in an avoidable financial loss/charge to the Action. Reckless expenditure means failing to exercise care in the selection of products, services or personnel, resulting in an avoidable financial loss/charge to the Action.

## **EXCEPTION/(S)**

Matters to be reported by the auditor in the Report under the heading 'Exceptions', including the following:

- Error or exception:  
Any fact detected by the auditor while performing a procedure which indicates deviation from the correct application of the contractual provisions (Grant Agreement, General or Specific Conditions, Annexes).
- Scope limitation:  
Any fact or event which impedes the auditor in performing any of the procedures. For instance, if the beneficiary states that there is no time recording, the related procedure (verification of the time recorded) cannot be carried out. Such scope limitation should thus be reported as an exception in the auditor's report.

## **EXPENDITURE INCURRED**

Expenditure committed and paid by the beneficiary and co-beneficiaries in the framework of the Action.

## **FINAL FINANCIAL REPORT**

Refers to the form (Annex to the Grant Agreement) which the beneficiary is required to use to declare costs to the Agency in accordance with the Grant Agreement. It should be noted that in the article dealing with 'Submission of reports', the Grant Agreement refers to the 'Final Financial Report' as the 'Final Financial Statement'.

## **GENERAL LEDGER**

The general ledger corresponds to double-entry accounting in which financial movements are recorded at the level of each individual account. It presents the chart of accounts of the beneficiary and provides information on the debit and credit entries made in the individual accounts. The general ledger is the primary source from which the statutory financial statements (or equivalent) are prepared.

## **NORMAL ACCOUNTING POLICY**

Standards and criteria used by the beneficiary to prepare its statutory financial statements (or equivalent). Generally, the accounting policy applied by the beneficiary for EU Grant Agreements/Decisions should not differ from its normal accounting policy.

However, for the purposes of the preparation of the Final Financial Report for the Agency, there may be cases where adjustments are necessary in order to comply with the eligibility criteria of the Grant Agreement/Decision; these should be duly documented and reconciled to the accounting records. The normal accounting policy may never be

adapted ad-hoc in order to charge the EU Grant more than would be the case with the normal practice of the beneficiary and co-beneficiaries.

#### **NORMAL EMPLOYMENT COSTS**

Refers to all cost components related to personnel. These include the basic salary, sickness, pension and social security contributions as well as any kind of allowances or benefits granted to the employees. The notion of ‘normal’ implies that those are the standards commonly applied by the beneficiary and co-beneficiaries.

#### **STAFF WORKING TIME (WORKING DAYS)**

Staff working time is the time actually spent on direct work on the Action. Staff working time has to be clearly justified and should match the underlying time records.

Staff working time:

- should exclude annual leave, public holidays, training and sick leave;
- should be calculated according to the beneficiary’s and/or co-beneficiaries’ normal practice and may vary depending on the personnel category, industry sector, unions, contracts and national legislation.

However, a figure of 220 working days per year may be considered to be a reasonable benchmark for a full-time member of staff in most cases.

***Example:***

Total days in a year	365
Weekends	-104
Annual holidays	-21
Statutory holidays	-10
<u>Illness/Others</u>	<u>-10</u>
Workable days in a year	220

#### **WORK PROGRAMME**

Activities carried-out by a beneficiary receiving an EU operating grant.

#### IV. ENGAGEMENT LETTER FOR THE REPORT OF FACTUAL FINDINGS ON THE FINAL FINANCIAL REPORT

The engagement letter is composed of the following documents:

Cover letter (see mandatory text below);

Annex 1 – Information about the Grant Agreement;

Annex 2 – List of specific procedures to be performed;

Annex 3 – Compulsory report format and procedures to be performed.

When drafting the engagement letter, the auditor and the beneficiary should use the text and the annexes below. The auditor and the beneficiary are free to add further arrangements under the section ‘Other terms’ of the mandatory format. These provisions may not in any event be contradictory to these guidance notes.

##### **Cover letter**

The following are the conditions on which *<name of the beneficiary>* ‘the beneficiary’ agrees to engage *<name of the audit firm>* ‘the auditor’ to provide an independent report of factual findings on the Final Financial Report prepared by the beneficiary in connection with a European Union financed Grant Agreement concerning *<title of the Action and number of the grant contract>* (the ‘Grant Agreement’). Where in this letter the ‘Agency’ is mentioned this refers to the Agency in its capacity as signatory of the Grant Agreement with the beneficiary, providing the grant funding. The Agency is not a party to this agreement.

##### **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 Agreement with the Agency.

- The beneficiary is responsible for providing the Agency with a Final Financial Report for the Action financed by the Grant Agreement which complies with the terms and conditions of the Grant Agreement and for ensuring that this Final Financial Report can be reconciled 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 Final Financial Report. Notwithstanding the procedures to be carried out, the beneficiary remains at all times responsible and liable for the accuracy of the Final Financial Report.
- The beneficiary accepts that the ability of the auditor to perform the procedures required by this engagement effectively depends upon the beneficiary, and as the case may be its partners / co-beneficiaries, providing full and free access to the beneficiary’s staff and its accounting and bookkeeping system and underlying accounts and records.

‘**The auditor**’ refers to the auditor responsible for performing the agreed-upon procedures as specified in this letter, and for submitting an independent Report of Factual Findings – Type II to the beneficiary.

The auditor must be independent from the beneficiary. By agreeing to this engagement the auditor confirms that at least the following condition/(s) has/have been met:

- [Option 1: delete if not applicable] The auditor is qualified to carry out statutory audits of accounting documents in accordance with Directive 2006/43/EC 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 or similar national regulations.
- [Option 2: delete if not applicable] The auditor is a Competent Public Officer for which the relevant national authorities have established the legal capacity to audit the beneficiary and is not involved in the preparation of the Final Financial Report.

The procedures to be performed are specified by the Agency and the auditor is not responsible for the suitability and appropriateness of these procedures.

## **2) Subject of the engagement**

The subject of this engagement is the Final Financial Report in connection with the Grant Agreement <Agreement reference number> for the period covering <dd Month yyyy to dd Month yyyy> and the Action entitled <title of the Action>, the 'Action'. Annex 1 to this letter contains information about the Grant Agreement.

## **3) Reason for the engagement**

The beneficiary is required to submit to the Agency a Report of Factual Findings on the Final Financial Report in the form of an independent certification produced by an auditor in support of the payment requested by the beneficiary in accordance with Article I.4 of the Grant Agreement. The Agency's Authorising Officer responsible requires this report as a condition for the final payment requested by the beneficiary.

## **4) Engagement type and objective**

This constitutes an engagement to perform specific agreed-upon procedures regarding an independent certification of costs claimed under the Grant Agreement/Decision. The objective of this expenditure verification is for the auditor to carry out the specific procedures listed in Annex 2 to this letter and to submit to the beneficiary a Report of Factual Findings – Type II with regard to the specific verification procedures performed. Verification means that the auditor examines the factual information in the Final Financial Report of the beneficiary and compares it with the terms and conditions of the Grant Agreement.

As this engagement is not an assurance engagement, the auditor does not provide an audit opinion and expresses no assurance. The Agency assesses for itself the factual findings reported by the auditor and draws its own conclusions from these factual findings on the Final Financial Report and the payment request of the beneficiary relating thereto.

The auditor shall include in his/her report the amount of the fee received for providing the Report of Factual Findings – Type II and shall certify that no conflict of interest exists between him/her and the beneficiary in establishing the report.

## **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 *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 Agency requires that the auditor is independent from the beneficiary and complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

## **6) Procedures, evidence and documentation**

The auditor plans the work so that effective expenditure verification can be performed. The auditor performs the procedures listed in Annex 2 and applies the related guidelines ('List of specific procedures to be performed'). The evidence to be used for performing the procedures in Annex 2 is all financial and non-financial information which makes it possible to examine the expenditure claimed by the beneficiary in the Final Financial Report. The auditor uses the evidence obtained from these procedures as the basis for the Report of Factual Findings – Type II. The auditor documents matters which are important in providing evidence to support the Report of Factual Findings – Type II and evidence that the work was carried out in accordance with ISRS 4400 and the specific guidance provided by the Agency.

## **7) Reporting**

The report on this expenditure verification should describe the purpose, the agreed-upon procedures and the factual findings in sufficient detail to enable the beneficiary and the Agency to understand the nature and extent of the procedures performed by the auditor.

The use of the reporting template attached hereto (Annex 3 - Compulsory report format and procedures to be performed) is mandatory. This report must be provided by the auditor to <name of the beneficiary> within <xx; number of working days to be indicated by the beneficiary> working days after the day of signature of this engagement.

## **8) Other terms**

*[The beneficiary and the auditor may use this section to agree other specific terms such as auditor's fees, out of pocket expenses, liability, applicable law, etc.]*

Signature beneficiary

Signature auditor



## Annex 1 – Information about the Grant Agreement

*[Annex to be completed by the beneficiary]*

Information about the Grant Agreement	
Reference number and date of the Grant Agreement	<Agency's reference of the Grant Agreement >
Programme	
Grant Agreement subject	
Country	
Beneficiary	< full name and address of the beneficiary as indicated in the Grant Agreement >
Start date of the Action	
End date of the Action	
Total cost of the Action	<amount in Art. I.3 of the Grant Agreement>
Grant maximum amount	<amount in Art. I.3 of the Grant Agreement>
Total amount received to date by the beneficiary from Agency	< Total amount received as of dd.mm.yyyy>
Total amount of the payment request	
Auditor	< Name and address of the audit firm and names/positions of the auditors>

## Annex 2 - List of specific procedures to be performed and specific guidance

### 1. *General procedures*

#### a) Terms and Conditions of the Grant Agreement

The auditor obtains an understanding of the terms and conditions of the Grant Agreement by reviewing:

- a signed copy of the Grant Agreement, its annexes and other relevant information. Particular attention should be paid to the Description of the Action and the Budget;
- the Final Financial Report (which includes a narrative and a financial section).

#### b) Beneficiary's legal and VAT status (not applicable for costs reimbursed on the basis of "unit costs")

- The auditor confirms the legal status of the beneficiary, and thus determines the treatment of VAT (deductible or not).
- Deductible VAT means that VAT is recoverable by the beneficiary under the national 'VAT system' (i.e. the system of collection and deduction under the national VAT legislation) is not an eligible cost. The final financial report should exclude deductible VAT amounts.
- Conversely, if VAT is NOT deductible, it is an eligible cost for the Final financial statement.
- In the framework of his/her work, the auditor is expected to verify the necessary supporting documents provided by the beneficiary and clearly confirm their status as regarding VAT treatment. Specific rules contained in Article II.19.4 of the Grant Agreement on VAT apply.

c) Final Financial Report and the Grant Agreement

- The Final Financial Report must conform to the model annexed to the Grant Agreement;
- The Final Financial Report should cover the Action as a whole, regardless of which part of it is financed by the Agency.

d) Rules for Accounting and Record Keeping

- The auditor examines whether the beneficiary has complied with the rules for accounting and record keeping in accordance with Articles II.19, II.20 and II.27.2 of the Grant Agreement;
- The accounts kept by the beneficiary for the implementation of the Action must be accurate, up-to-date and exhaustive (including all expenditure and income);
- The auditor examines whether the beneficiary has a double-entry book-keeping system;
- The income and expenditure relating to the Action must be easily identifiable and verifiable;

e) Exchange Rates (not applicable for costs reimbursed on the basis of "unit costs")

The auditor verifies that amounts of expenditure incurred in a currency other than the euro have been converted in accordance with the provisions of the Grant Agreement. Where the beneficiary is required to use the website of the Commission, this refers to InforEuro<sup>16</sup>.

2. *Verification evidence*

The beneficiary will allow the auditor 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 will allow the auditor access to all documents and databases concerning the technical and financial management of the Action (Article II.27 of the Grant Agreement). **It should also be noted that it is the beneficiary's responsibility to obtain the accounting documents necessary to enable the auditor to verify costs incurred by co-beneficiaries / project partners.**

Supporting documentation must be available in the form of original documents for the beneficiary (or certified copies of originals for the co-beneficiaries) rather than photocopies or facsimiles.

If the auditor finds that the above criteria for evidence are not sufficiently met, this should be reported as an exception.

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<sup>16</sup> [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/inforeuro/inforeuro\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm)

### **3. *Procedures to verify the conformity of expenditure with the budget and analytical review***

- The auditor carries out a substantive review of the expenditure headings in the Final Financial Report;
- The auditor verifies whether there have been amendments to the budget of the Grant Agreement;
- The auditor verifies that the budget in the Final Financial Report corresponds<sup>17</sup> to the budget of the Grant Agreement (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Agreement;
- The auditor verifies any transfers between budget headings by comparing the initial budget with the budget in the Final Financial Report and checks that the provisions of Articles I.8 and II.12 of the Grant Agreement have been complied with.

### **4. *Selecting expenditure for verification and Expenditure Coverage***

The expenditure claimed by the beneficiary in the Final Financial Report is presented in the budget form provided in the Grant Agreement.

Expenditure headings can be broken down into expenditure subheadings. Expenditure subheadings can be broken down into individual expenditure items or classes of expenditure items with the same or similar characteristics.

#### **What percentage of expenditure needs to be verified by the auditor?**

The Expenditure Coverage Ratio ('ECR') represents the total amount of expenditure verified by the auditor expressed as a percentage of the total amount of expenditure reported by the beneficiary in the Final Financial Report (i.e. funded from EU funds and other sources).

The auditor ensures that the overall ECR is at least 70%. If the exception rate is less than 10% of the total amount of expenditure verified (i.e. 7% of total expenditure), the auditor finalises the verification procedures and continues with reporting.

If the exception rate is greater than 10%, the auditor is required to extend the verification procedures until the ECR is at least 85%.

In addition to reaching the minimum coverage of total expenditure stated in the previous two paragraphs, the auditor must ensure that the ECR for each expenditure heading in the Final Financial Report is at least 10%.

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<sup>17</sup> Some degrees of flexibility in the implementation of the budget are allowed. The rule proposed in the grant agreement is that changes of up to 10% of each item/heading (+ or -) are allowed without amendment, and will remain eligible. Please verify the rule in the grant agreement (some grant agreements have 15% or 20% flexibility). Any changes within the limit specified in the grant agreement didn't require the beneficiary's request for amending the grant agreement.

Changes above the limit did require an amendment of the budget annexed to the grant agreement. If such request was not approved by the Agency, the costs exceeding the limit should be considered ineligible.

## **On what basis should expenditure items be selected for verification?**

In order to both meet the minimum ECR above and ensure that the expenditure verification is systematic and representative:

- value should be the principal factor used by the auditor, i.e. an appropriate number of high value expenditure items should be selected; and
- otherwise, the population selected for testing should be selected on a random basis in order to produce a representative sample.

### **5. *Procedures to verify selected expenditure***

The Report of Factual Findings on the Final Financial Report - Type II is intended to verify the costs incurred by the beneficiary within the framework of the Grant Agreement for an Action reimbursed through a mixed financing system: (1) reimbursement based on eligible costs (or "actual costs") and (2) unit costs.

The following substantive procedures are required to be performed by the auditor in order to verify expenditure for items financed through actual costs and outputs produced for items financed through unit costs. These procedures are different depending on the category of costs:

- 1) costs financed through eligible costs actually incurred, or "actual costs": Equipment and Subcontracting;
- 2) costs financed through a reimbursement on the basis of "unit costs": Staff costs, Travel costs and Costs of stay.

#### **1) Eligibility of costs for "Actual costs"**

For the purpose of these guidance notes, this heading refers to the following categories of costs, financed through eligible costs actually incurred, or "actual costs": Equipment and Subcontracting.

All costs must be justified by the relevant supporting documents.

The auditor verifies, for each expenditure item selected, that the eligibility criteria set out below have been met.

- Costs actually incurred <sup>18</sup>

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

The auditor verifies that the monetary value of a selected expenditure item is in line with underlying documents (e.g.

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<sup>18</sup> Article II.19 of the Grant Agreement.

invoices, payroll documents) and that correct exchange rates are used where applicable.

– Cut-off - Implementation period:

The auditor verifies that the expenditure for a selected item was incurred during the period of implementation or eligibility in accordance with Article I.2 of the Grant Agreement. Invoices received during the eligibility period but not yet paid, as well as costs relating to the Final Financial Report, should be reported by the auditor under the 'exceptions'. The costs relating to the Final Financial Report should be reasonable and in line with the provisions of Article II.19 of the Grant Agreement.

– 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 Final Financial Report.

– Necessary / connected<sup>19</sup>

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 together with supporting documents.

– Sound financial management / economy<sup>20</sup>

For each selected item, the auditor verifies that the price paid for the goods/services does not represent expenditure that has been incurred excessively or recklessly<sup>21</sup>.

– Compliance with sub-contracting rules:

Where applicable, the auditor checks that the sub-contracted tasks or activities have been provided for in the initial budget or have been approved by the Agency.

– Compliance with procurement rules:

Where applicable, the auditor examines which procurement rules (as provided for by the Grant Agreement) apply for any given expenditure (sub)heading, class of expenditure items or expenditure item. The auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents of the procurement and purchase process, e.g. tenders/quotes. Where the auditor finds instances of non-compliance with procurement rules, the nature thereof as well as their financial impact in terms of ineligible expenditure should be reported as an exception.

– Compliance with eligibility of costs:

The auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in Article I.10.4 and

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<sup>19</sup> Article II.19 of the Grant Agreement.

<sup>20</sup> Article II.19 of the Grant Agreement.

<sup>21</sup> See 'Glossary' for a definition of 'excessive or reckless expenditure'.

II.19.4 of the Grant Agreement as well as in Section "Ineligible Costs" of the Guidelines for the Use of the Grant.

**Which documents should the beneficiary prepare for the auditor?**

For most transactions in these cost categories, the original third-party invoices, original procurement contracts (or certified copies for co-beneficiaries), proofs of payment and documents on tendering procedures (when applicable) should be sufficient as proofs of expenditure.

**What are the most common errors made by beneficiaries for Equipment and Subcontracting?**

- General: invoices are not detailed enough to establish a clear connection to project activities.
- Deductible VAT is included in the invoice and charged as project expenditure;
- Tendering procedure is not applied for the purchase of goods or services exceeding 25.000 EUR, or applicable national legislation is not applied where the estimate value of a contract to be awarded exceeds EUR 134.000;
- Purchase of equipment is split into smaller contracts with individual amounts lower than the 25.000 EUR threshold;
- Proof of expenditure is a pro-forma invoice, an offer or a quotation instead of an invoice.

The guidance provided above is of a generic nature meant to draw attention to these matters. However, it is recommended that the beneficiary and auditor refer to relevant chapters of the Guidelines for the Use of the Grant and Programme Guide for detailed guidance on both cost eligibility and documentary requirements for Equipment and Subcontracting.

2) Eligibility of costs for "Unit costs"

For the purpose of these guidance notes, this heading refers to the following categories of budget items, financed through a reimbursement on the basis of "unit costs": Staff costs, Travel costs and Costs of stay.

Financial reporting for this type of costs will be based on the principle of the "triggering event". Beneficiaries will have to prove that the activities have been actually and properly implemented and the output produced. As a consequence, beneficiaries will have flexibility in the way they manage the funds awarded to cover the corresponding expenses.

Beneficiaries do not need to justify the level of spending. The supporting documents will have to demonstrate that the volume and/or the nature of the activities actually implemented, justify the number of unit costs charged to the grant.

a) Staff costs

The auditor verifies that Staff costs are reported according to the rules set out in the supporting documents specified in section II, in particular the Guidelines for the Use of the Grant (Section "Specific rules by budget heading - Staff Costs").

For this purpose, considering that the calculation of the grant is based exclusively on the application of the unit costs and is independent from the actual remuneration of the staff involved, the auditor verifies that:

- unit costs were applied according to the correct staff category and applicable country category;
- the number of unit costs declared by the beneficiary corresponds to the total number of days worked for the implementation of the project by the staff member concerned.

For the verification of the relation between the workload declared and the results/outputs of the project, the auditor verifies that there is a reasonable assurance that the volume of working days reported (in accordance with the national legislation and/or internal practices for what concerns the minimum requirements in terms of time worked per day) is justified by the volume of results achieved and/or of tangible outputs produced

As a general rule, declared working days per individual may not exceed 20 days per month or 240 days per year.

In addition, the auditor verifies the employment status and conditions of employment of the personnel.

For the employees selected, the auditor checks that they:

- were hired<sup>22</sup> by the beneficiary<sup>23</sup> in accordance with its national legislation;
- were:
  - employed by the Institution and they were part of its payroll system, or;
  - were natural persons\* assigned to the project on the basis of a contract against payment;
- were performing tasks directly necessary to the achievement of the objectives of the project;

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<sup>22</sup> See 'Glossary' for a definition of 'directly hired'.

<sup>23</sup> Reminder of footnote n° 2: for the purpose of these guidance notes, the term 'beneficiary' refers both to the beneficiary (coordinator) and co-beneficiaries (partners). For further details please refer to the 'Glossary' (page 18).

*\* A natural person (individual) can be assigned to the action also on the basis of e.g a civil contract, a free-lance contract, an expert contract, a service contract with self-employed person ("in house consultant) or a secondment to the Institution against payment. The costs of such natural persons working under the action may be assimilated to the costs of personnel, if:*

*(i) the person works under conditions similar to those of an employee (in particular regarding the way the work is organised, the tasks that are performed and the premises where they are performed);*

*(ii) the result of the work belongs to the Institution (unless exceptionally agreed otherwise); and*

*(iii) the costs are not significantly different from the costs of staff performing similar tasks under an employment contract within the institution*

Any employment condition that does not meet these criteria must be reported by the auditor under the category 'exception'.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned, the auditor should accept certified copies.

### **What is the objective of this procedure?**

The Agency seeks to ensure that reported staff costs relate to employees of the beneficiary carrying out the Action, and have not been 'outsourced' to a different entity, unless priory authorised by the Agency. The Agency also seeks to ensure that no special employment conditions are applied which do not form part of the normal practice of the beneficiary.

### **Which documents should the beneficiary prepare for the auditor?**

- Employment contracts for the staff in question, as well as standard employment contracts in use for personnel who perform a variety of work for the beneficiary (i.e. are not exclusively devoted to an EU-funded project or Work Programme).
- A duly filled-in Joint Declaration<sup>24</sup> (Template provided by the Agency and available in its website) for each person for whom staff costs have been charged to the project. The declaration must be signed by the person concerned, then signed and stamped by the person responsible in the Institution where this person worked for the project. The Institution must be a member of the partnership.

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<sup>24</sup> For projects selected in 2015 that have already collected signed "Staff conventions", it is not necessary to sign new "Joint declarations".



- If the staff member performs tasks corresponding to different categories of staff, a separate Joint Declaration must be signed for each category.
- Time-sheets . They must be signed by the person concerned and countersigned by the person responsible in the employing institution. They must indicate the following:
  - the project reference
  - the name of the person performing the tasks, his/her position and the staff category
  - the institution and the country where the person is employed
  - the number of days worked for the corresponding month and year
  - the description of the tasks performed, the outputs produced and the related work package.
- Any material evidence allowing to verify that the declared workload corresponds to actual activities/outputs (e.g. attendance lists for lectures given, tangible outputs / products, salary slips, etc.).
- The auditor should verify if any prior authorisation from the Agency was granted for Staff costs.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned, the auditor should accept certified copies.

### **What kind of information would give rise to exceptions?**

Any deviation from the above principles should be highlighted by the auditor as an exception. Some examples have been provided below (list not exhaustive).

Exceptions should be highlighted if no reasonable activity or output could be verified for the working days declared.

Exceptions should be highlighted if there is no reasonable assurance that the number of unit costs declared corresponds to the number of working days dedicated to the project in terms of workload and tangible outputs.

Exceptions should be highlighted if there are indications in the employment contract that the employee has been hired by a different legal entity.

Exceptions should be highlighted if the employment relation between the staff member and the employing organisation is questioned.

#### **b) Travel costs and costs of stay**

The auditor verifies that *Travel costs and costs of stay* costs are reported according to the rules set out in the supporting documents specified in section II, in particular the Guidelines for the Use of the Grant (Section "Travel costs and Costs of Stay").

Considering that the calculation of the grant is based exclusively on the application of the unit costs and is independent from the level of spending for the staff and students involved, the auditor verifies that the volume and/or the nature of the activities actually implemented justify the number of unit costs charged to the grant.

In particular the auditor verifies that the journeys actually took place and they are connected to specific and clearly identifiable project-related activities.

In addition, the auditor verifies that:

- for Travel costs, the distance travel bands have been applied correctly;
- for Costs of Stay, the number of unit costs declared corresponds to the actual number of days of the activities (including the travel). Unit costs can be declared for each day spent on the activity (including the travel period), independently from the time of departure or arrival.

Beneficiaries do not need to justify the level of spending

Any condition that does not meet these criteria must be reported by the auditor under the category 'exception'.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned, the auditor should accept certified copies.

### **Which documents should the beneficiary prepare for the auditor?**

- Any proof that the journeys actually took place and are connected to specific and clearly identifiable project-related activities.
- A duly filled-in Individual Travel Report (Annex III of the Guidelines for the Use of the Grant). Supporting documentation will have to be attached to each travel report in order to demonstrate the fact that the travel and the activity actually took place (e.g. travel tickets, boarding passes with points of departure and destination, dates and name of the person travelling, invoices, receipts, proof of attendance in meetings and/or events, agendas, tangible outputs/products, minutes of meetings).

- The auditor should verify if any prior authorisation from the Agency was granted for Travel and/or costs of stay.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned, the auditor should accept certified copies.

### **What kind of information would give rise to exceptions?**

Any deviation from the above principles should be highlighted by the auditor as an exception.

### **What Travel costs and costs of stay costs are not considered eligible or should be regarded as exceptions?**

Exceptions should be reported for:

- Travel costs and costs of stay which do not correspond to concrete outputs in terms of activities linked to the projects, or which cannot be justified by supporting documents demonstrating that the travel took place for the duration of the journey;
- Travels of students or staff not enrolled in or employed by a beneficiary organisation;
- Travels outside the partnership countries;
- Travels shorter than the minimal or exceeding the maximum duration.

## **6. *Quantification of exceptions***

Wherever possible, the auditor quantifies the full amount of the verification exceptions found. For example, if the auditor finds an exception of EUR 1 000 with regard to procurement rules for a Grant Agreement where the EU finances 60 % of the expenditure, the auditor reports an exception of EUR 1 000 and a financial impact of EUR 600 (EUR 1 000 x 60%).

Furthermore, the description of the exception should be sufficiently detailed to enable the Agency to determine which expense item in the Final Financial Report the exception relates to. The wording in the 'factual findings' paragraph of the report format (see Annex 3 to this engagement letter) allows details of all exceptions to be provided in the form of an Annex. The auditor's attention is drawn to the fact that favourable exceptions, i.e. exceptions increasing eligible expenditure, are not permitted.

## **7. *Procedures to verify revenues***

The auditor examines whether revenues which should be attributed to the Action (including *inter alia* grants and funding received from other donors, revenue generated by the Action, contributions in kind, have been allocated to the Action and disclosed in the Final Financial Report. For this purpose the auditor should consult the beneficiary and examine

documentation obtained from the beneficiary, e.g. income accounts in the General Ledger<sup>25</sup>.

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<sup>25</sup> See 'Glossary' for definition of 'General Ledger'.

### **Annex 3 - Compulsory report format and procedures to be performed**

*To be printed on letterhead paper of the auditor*

#### **Independent Report of Factual Findings – Type II on costs claimed under a Grant Agreement/Decision financed under the <insert name> Programme**

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

< Beneficiary's name>

<Address>

<dd Month yyyy>

In accordance with the terms of our engagement letter dated <dd Month yyyy> with <name of the beneficiary>, hereinafter referred to as 'the beneficiary', we hereby provide our Independent Report of Factual Findings – Type II ('the Report'), as specified below.

#### **Objective**

We [*legal name of the audit firm*], established in [*full address/city/province/country*], represented for signature of this Report by [*name and function of an authorised representative*], have performed agreed-upon procedures regarding the costs declared in the Final Financial Report of [*name of beneficiary*], the beneficiary, to which this Report is attached, and which is to be presented to the Education, Audiovisual and Culture Executive Agency, hereinafter referred to as 'the Agency', under Grant Agreement [*Grant Agreement reference number*] for the following period [*insert period covered by the Final Financial Report*]. This engagement involved performing the procedures listed in Annex 2 of the engagement letter, the results of which the Agency uses to draw conclusions as to the eligibility of the costs claimed.

#### **Standards and ethics**

Our engagement was undertaken in accordance with:

- the specific guidance provided by Agency;
- 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 Agency 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 2 to the engagement letter.

These procedures have been determined solely by the Agency and were performed solely to assist the Agency in evaluating whether the expenditure claimed by the beneficiary in the accompanying Final Financial Report has been claimed in accordance with the Grant Agreement. The auditor is not responsible for the suitability and appropriateness of these procedures.

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 Final Financial Report. Had we performed additional procedures or had we performed an audit or review of the Final Financial Report 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 the management of the beneficiary in response to specific questions or as obtained and extracted from the beneficiary's information and accounting systems.

### Factual findings

The above-mentioned Final Financial Report was examined and all procedures specified in Annex 2 to our engagement letter were carried out.

The total expenditure which is the subject of this expenditure verification amounts to EUR <xxxxxx>. The Expenditure Coverage Ratio verified by us amounts to <xx %>.

On the basis of the results of these procedures, we found:

*<select the relevant statement>*

<All documentation and accounting information to enable us to carry out these procedures has been provided to us by the beneficiary. >

<We report the details of the exceptions which result from the procedures that we performed in Annex of this Report.>

### **Exceptions [delete if not applicable, i.e. no exceptions have been identified]**

In some cases, the auditor was not able successfully to complete the procedures specified.

These exceptions are as follows:

**Exceptions such as inability to reconcile key information, unavailability of data which prevented the auditor from carrying out the procedures, etc. should be listed in the Annex to this compulsory report format. The Agency will use this information to decide the amounts which will be reimbursed.**

### Use of this report

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

This Report is prepared solely for the confidential use of the beneficiary and the Agency and solely for the purpose of submission to the Agency in connection with the requirements as set out in Article I.4 of the Grant Agreement. This Report may not be relied upon by the beneficiary or by the Agency for any other purpose, nor may it be distributed to any other parties. The Agency 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 Final Financial Report specified above and does not extend to any other financial statements of the beneficiary.

No conflict of interest exists between the auditor and the beneficiary in establishing this Report. The fee paid to the auditor for providing the Report was EUR \_\_\_\_\_ while a total of EUR \_\_\_\_\_ has been reimbursed to the auditor for the related travel & subsistence.

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

*[legal name of the audit firm]*

*[name and function of an authorised representative]*

**<dd Month yyyy>, <Signature of the auditor>**

## Annexes to the compulsory report format

### I. List of exceptions identified by the auditor

**Reminder: exceptions refer to inability to reconcile key information, unavailability of data which prevented the auditor from carrying out the procedures, etc. The Agency will use this information to decide the amounts which will be reimbursed. For further guidance, please refer to section II.3.6. ‘Quantification of exceptions’ and to the ‘Glossary’.**

Budget heading	Budget item under exception	Reference	Reason for the exception	Amount
e.g. Equipment	Laptop	No XX/12	No invoice provided	EUR 200
e.g. Staff costs	Mr XX	No XY/14	No formal employment relation between employee and employer	EUR 950
e.g. Travel costs	Mr XY	No. YY/14	No evidence provided	EUR 320

### II. Final Financial Report

**NB: please attach the following document**

The cost breakdown relating to the Action (as per the model annexed to the Grant Agreement, i.e. the Excel Final Financial Statement), compiled, dated and signed the beneficiary and countersigned by the auditor (or competent public officer).