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INSTITUTO POLITÉCNICO DO PORTO

CONSULTA PRÉVIA PARA
SERVIÇOS DE AUDITORIA AO PROJETO COMUNITÁRIO ERASMUS+ KA2 ENTER
CAPACITY BUILDING FOR HIGHER EDUCATION

REF.ª 35/000/A/1556_2022

CADERNO DE ENCARGOS

Cláusula 1.ª

Objeto

O presente caderno de encargos compreende as cláusulas a incluir no contrato a celebrar na sequência do procedimento pré-contratual que tem por objeto principal a aquisição pelo Instituto Politécnico do Porto (P.PORTO) de **Serviços de Auditoria ao projeto comunitário ERASMUS+ KA2 ENTER *CAPACITY BUILDING FOR HIGHER EDUCATION***, de acordo com as especificações técnicas previstas no Anexo I ao presente Caderno de Encargos, que dele faz parte integrante.

Cláusula 2.ª

Contrato

1. O contrato é composto pelo respetivo clausulado contratual e os seus anexos.
2. O contrato a celebrar integra os seguintes elementos:
   a) Os suprimentos dos erros e das omissões do Caderno de Encargos identificados pelos concorrentes, desde que esses erros e omissões tenham sido expressamente aceites pelo órgão competente para a decisão de contratar;
   b) Os esclarecimentos e as retificações relativos ao Caderno de Encargos;
   c) O presente Caderno de Encargos;
   d) A proposta adjudicada;
   e) Os esclarecimentos sobre a proposta adjudicada prestados pelo adjudicatário.

3. Em caso de divergência entre os documentos referidos no número anterior, a respetiva prevalência é determinada pela ordem pela qual aí são indicados.
4. Em caso de divergência entre os documentos referidos no n.º 2 e o clausulado do contrato e seus anexos, prevalecem os primeiros, salvo quanto aos ajustamentos propostos de acordo com o disposto no artigo 99.º do Código dos Contratos Públicos e aceites pelo adjudicatário nos termos do disposto no artigo 101.º desse mesmo diploma legal.

Cláusula 3.ª

Prazo do Contrato

O contrato terá início na data da sua assinatura, ou em data a combinar, e será válido até 30 de novembro de 2022, em conformidade com os respetivos termos e condições e o disposto na lei, sem prejuízo das obrigações acessórias que devam perdurar para além da cessação do Contrato.

Cláusula 4.ª

Obrigações principais do prestador de serviços

1. Sem prejuízo de outras obrigações previstas na legislação aplicável ou no Caderno de Encargos, da celebração do contrato, decorrem para o prestador de serviços as obrigações constantes das Especificações Técnicas do presente Caderno de Encargos.
2. A título acessório, o prestador de serviços fica ainda obrigado, designadamente, a recorrer a todos os meios humanos, materiais e informáticos que sejam necessários e adequados à prestação do serviço, bem como ao estabelecimento do sistema de organização necessário à perfeita e completa execução das tarefas a seu cargo.

Cláusula 5.ª

Forma de Prestação do Serviço

Para acompanhamento da execução do contrato, o Prestador de Serviços fica obrigado a, sempre que solicitado, reunir nas instalações dos Serviços Comuns do P.PORTO ou no Instituto Superior de Engenharia do Porto (ISEP) com os seus representantes.

Cláusula 6.ª

Fases da prestação do serviço

1. A presente consulta será organizada por tarefas de acordo com as especificações técnicas distribuídas em dois períodos temporais:
    a) Fase 1 – **reunião preparatória** e **primeira auditoria**
    b) Fase 2 – **auditoria final**

    Os serviços apresentados no número anterior devem estar concluídos considerando as seguintes datas:

1. Fase 1 – **reunião preparatória** e **primeira auditoria** (Até 1 mês após a adjudicação);
2. Fase 2 – **auditoria final** (Até 2 meses após a adjudicação);

Cláusula 7.ª

Local e condições da prestação de serviços

Os serviços serão prestados nas instalações do P.PORTO ou noutro local acordado com a entidade adjudicante.

Cláusula 8.ª

Objeto do dever de sigilo

1. O prestador de serviços deve guardar sigilo sobre quaisquer matérias sujeitas a segredo nos termos da lei, relativas ao P.PORTO e suas Unidades Orgânicas, às quais tenham acesso por força da execução do contrato.
2. A informação e a documentação cobertas pelo dever de sigilo não podem ser transmitidas a terceiros, nem objeto de qualquer uso ou modo de aproveitamento que não o destinado direta e exclusivamente à execução do contrato.
3. Exclui-se do dever de sigilo previsto, a informação e a documentação que fossem comprovadamente do domínio público à data da respetiva obtenção pelo prestador de serviços, ou que este seja legalmente obrigado a revelar, por força da lei, de processo judicial ou a pedido de autoridades reguladoras ou outras entidades administrativas competentes.

Cláusula 9.ª

Prazo do dever de sigilo

O dever de sigilo mantém-se em vigor até ao termo do prazo de cinco anos a contar do cumprimento ou cessação, por qualquer causa, do contrato, sem prejuízo da sujeição subsequente a quaisquer deveres legais relativos, designadamente, à proteção de segredos comerciais ou da credibilidade, do prestígio ou da confiança devidos às pessoas coletivas.

Cláusula 10.ª

Proteção de dados pessoais

1. As partes obrigam-se a cumprir, nos seus precisos termos, o disposto na legislação nacional e comunitária relativa à proteção da privacidade e de dados pessoais, nomeadamente o Regulamento Geral Sobre a Proteção de Dados (Regulamento (EU) 2016/679, de 27 de abril).
2. A entidade adjudicatária obriga-se ainda, durante a vigência do contrato e após a sua cessação, a respeitar a confidencialidade sobre todos os dados pessoais e quaisquer elementos ou informações que tenham sido confiados pela contraparte ou de que tenham tido conhecimento, por força da adjudicação do presente procedimento, na estrita observância das instruções emitidas pelo P.PORTO e da legislação aplicável.
3. A entidade adjudicatária garante a segurança e proteção de dados, através do estabelecimento de uma política de segurança, de controlos adequados e de gestão de riscos.
4. Sempre que a relação contratual implique a subcontratação, deve ser garantido pelo cocontratante, sucessivamente, que terceiros que envolva na execução do contrato, respeitem as obrigações de sigilo e confidencialidade, bem como as relativas à proteção jurídica de bases

de dados e ao tratamento de dados pessoais, nos termos legalmente previstos na legislação à proteção de dados pessoais, designadamente as constantes do artigo 28.º do Regulamento Geral Sobre Proteção de Dados. As obrigações previstas na presente cláusula são aplicáveis no caso de cessão da posição contratual.

Cláusula 11.ª

Preço Contratual

1. Pela prestação de serviços objeto do contrato, bem como, pelo cumprimento das demais obrigações constantes do presente Caderno de Encargos, o Instituto Politécnico do Porto deve pagar ao prestador de serviços os valores indicados na proposta adjudicada, os quais não podem, porém, ultrapassar o somatório de € 7.087,50 (sete mil, oitenta e sete euros e cinquenta cêntimos), acrescido de IVA à taxa legal em vigor, durante a vigência do contrato, discriminados da seguinte forma:

   a) Fase 1 – 50% do preço contratual: **reunião preparatória** para esclarecimentos de dúvidas e informação relativa à organização dos dossiers financeiros e **primeira auditoria** que auditará todas as despesas decorridas entre novembro de 2018 e agosto 2022.

   b) Fase 2 – 50% do preço contratual: **auditoria final**, auditará as despesas realizadas de setembro de 2022 até ao final do projeto bem como auditoria às despesas identificadas na auditoria anteriores que careceram de informações complementares e/ou correções e elaboração da certificação de contas.

2. O preço referido no número anterior inclui todos os custos, encargos e despesas cuja responsabilidade não esteja expressamente atribuída ao Instituto Politécnico do Porto, incluindo as despesas de deslocações, aquisição, transporte, armazenamento e manutenção de meios materiais bem como quaisquer encargos decorrentes da utilização de marcas registadas, patentes ou licenças.

Cláusula 12.ª

Condições de Pagamento

1. A quantia devida nos termos da cláusula anterior deve ser paga no final de cada fase e em função do valor apresentado para cada uma delas.
2. As quantias devidas pelo P.PORTO devem ser pagas no prazo de 30 dias após a receção pelo Instituto Politécnico do Porto da respetiva fatura, a qual só pode ser emitida após o vencimento da obrigação respetiva.
3. Para efeitos do número anterior, considera-se que a obrigação de cada uma das fases está vencida sempre que o P.PORTO receba e aceite o resultado da auditoria constante das Especificações Técnicas apresentado pelo prestador de serviços no final de cada uma das fases.
4. Em caso de discordância por parte do Instituto Politécnico do Porto, quanto aos valores indicados na fatura, deve este comunicar ao fornecedor, por escrito, os respetivos fundamentos,

ficando o fornecedor obrigado a prestar os esclarecimentos necessários ou proceder à emissão de nova fatura corrigida.

5. Desde que devidamente emitida e observado o disposto no n.º 1, a fatura é paga, preferencialmente, através de transferência bancária.

Cláusula 13.ª

Caução

Nos termos do n.º 2 do artigo 88.º do CCP, não é necessária a prestação de caução para garantia do presente contrato.

Cláusula 14.ª

Resolução do contrato por parte do contraente público

1. Sem prejuízo de outros fundamentos de resolução previstos na lei, o Instituto Politécnico do Porto pode resolver o contrato, a título sancionatório, no caso de o prestador de serviços violar de forma grave ou reiterada qualquer das obrigações que lhe incumbem.
2. O direito de resolução referido no número anterior exerce-se mediante declaração enviada ao prestador de serviços.

Cláusula 15.ª

Resolução do contrato por parte do prestador de serviços

1. Sem prejuízo de outras situações de grave violação das obrigações assumidas pelo contraente público especialmente previstas no contrato e independentemente do direito de indemnização, o cocontratante tem o direito de resolver o contrato nas seguintes situações:
   a) Incumprimento de obrigações pecuniárias pelo contraente público por período superior a seis meses; ou
   b) Quando o montante em dívida exceda 25% do preço contratual, excluindo juros.
2. Nos casos previstos no n.º 1, o direito de resolução pode ser exercido mediante declaração ao contraente público, produzindo efeitos 30 dias após a receção dessa declaração, salvo se o contraente público cumprir as obrigações em atraso nesse prazo, acrescidas dos juros de mora a que houver lugar.

Cláusula 16.ª

Resolução de litígios – Foro competente

Para resolução de todos os litígios decorrentes do contrato fica estipulada a competência do Tribunal Administrativo e Fiscal do Porto, com expressa renúncia a qualquer outro.

Cláusula 17.ª

Comunicações e notificações

1. Sem prejuízo de poderem ser acordadas outras regras quanto às notificações e comunicações entre as partes do contrato, estas devem ser dirigidas, nos termos do CCP, para o domicílio ou sede contratual de cada uma, identificados no contrato.
2. Qualquer alteração das informações de contacto constantes do contrato deve ser comunicada à outra parte.

Cláusula 18.ª

Contagem dos prazos

Os prazos previstos no contrato são contínuos, não se suspendendo nos sábados, domingos e dias feriados.

Cláusula 19.ª

Subcontratação e cessão da posição contratual

A subcontratação pelo prestador de serviços e a cessão da posição contratual por qualquer das partes depende da autorização da outra, nos termos do Código dos Contratos Públicos.

Cláusula 20.ª

Legislação aplicável

O contrato é regulado pelo CCP e pela demais legislação portuguesa aplicável.

ANEXO I

ESPECIFICAÇÕES TÉCNICAS

O P.PORTO pretende contratar a Prestação de **serviços de auditoria a projetos comunitários – *Capacity Building***, que deverá compreender a verificação:

- das despesas elegíveis,
- dos custos de imputação,
- do cumprimento dos requisitos legais
- do cumprimento das regras do contrato, de acordo com as orientações descritas no Annex VII- Guidance notes (Anexo II do presente Caderno de Encargos);

Para além da verificação descrita, será ainda solicitado que todos os documentos/evidências em falta na parceria sejam questionados e solicitados diretamente aos parceiros pela empresa de auditoria, enumerados abaixo:

Parceiro
Dubnica Institute of Technology in Dubnica nad Váhom
Tallinn University of Technology
National Research Tomsk Polytechnic University
Kazan National Research Technological University
Tambov State Technical University
Don State Technical University
Association for Engineering Education of Russia
Al-Farabi Kazakh National University – KazNU
E.A.Buketov Karaganda State University
Kazakhstan Association of Engineering Education
Vyatka State University
Agency of Educational Strategies & Initiatives "Bologna Club" – BC

ANEXO II

GUIDANCE NOTES

Report of Factual Findings on the Final Financial Report

(Type II)

Education,
Audiovisual
& Culture
Executive Agency

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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 of factual findings 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 (delete if not applicable – i.e. for the calls 2013: including interest generated by the pre-financing and other sources of financing) have been declared in the Final Financial Report in accordance with the relevant legal and financial provisions of the Grant Agreement/Decision.

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[1].

Notwithstanding the procedures to be carried out, the beneficiary[2] 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/Decision shall be liable to financial penalties according to Article XX of the Grant Agreement/Decision.

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

[1] '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 […]' (Article XX of the Grant Agreement/Decision).

[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 17).

Directive on statutory audits of annual accounts and consolidated accounts[3] 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 XX of the Grant Agreement/Decision, public bodies have the choice between an external auditor and a competent public officer[4]. 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/Decision for which the certification is submitted (Article XX).

The cost of the certification is a direct cost and may be charged in the 'Other costs<insert appropriate name of budget line if different>' category of the budget. It should be provided for under the budget heading 'Other costs/<insert appropriate name of budget line if different[5]> of 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/Decision and should take account of relevant market prices for similar services. Excessive or reckless audit expenditure will be rejected.

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[3] 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.

[4] See 'Glossary' for a definition of 'competent public officer'.

[5] E.g. 'Operating costs' under an Operating Grant Agreement/Decision.

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.

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 limited to reporting only factual findings as opposed to forming an independent opinion on the eligibility of costs. 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 exceptions[6], 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 (delete if not applicable)
  - Grant Agreement signed between the beneficiary and the Agency, or Grant Decision, 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.
  - Administrative and Financial Handbook, Programme Guide, Frequently Asked Questions (delete if not applicable)
  - 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 XX of the Grant Agreement/Decision.

[6] See 'Glossary' for a definition of 'exception'.

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

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 one [two for the Tempus Programme] separate document/(s):

- 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)
- [applicable to the Tempus Programme only. The list of invoices relating to the Action (Annex IV to the Grant Agreement), compiled by the beneficiary and dated, stamped and signed by the auditor (or competent public officer). <Link to Tempus web-library>].

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/Decision, 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/Decision

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

- a signed copy of the Grant Agreement/Decision, 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 and co-beneficiaries' legal and VAT status

The auditor confirms the legal status of the beneficiary and co-beneficiaries, and thus determines the treatment of VAT, which should fall into one of the following three categories:

- Public body: entitled or not to recover VAT;
- Private entity entitled to recover VAT (including the percentage that the entity is entitled to recover);
- Private entity not entitled to recover VAT.

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.

[For the Tempus Programme only: specific rules contained in Articles I.11.8 and II.14.4 of the Grant Agreement on VAT apply].

3) Final Financial Report and the Grant Agreement/Decision

- The Final Financial Report must conform to the model in Annex XX of the Grant Agreement/Decision;
- 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 Article XX of the General Conditions of the Grant Agreement/Decision;
- 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;
- [Delete if not applicable: The accounts must provide details of interest accrued on funds paid by the Agency].

5) Exchange Rates

The auditor verifies that amounts of expenditure incurred in a currency other than the euro have been converted in accordance with the provisions of Article XX of the Grant Agreement/Decision. Where the beneficiary is required to use the website of the Commission, this refers to InforEuro[7].

[7] http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm

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 XX of the General Conditions). **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.

Annex XX of the Grant Agreement/Decision provides a list of the types and nature of evidence that the auditor will often find in expenditure verifications.[paragraph to be deleted where such guidance/ Annex does not exist]

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/Decision;
- The auditor verifies that the budget in the Final Financial Report corresponds[8] to the budget of the Grant Agreement/Decision (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Agreement/Decision;
- 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 Article XX of the Grant Agreement/Decision 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 under the following expenditure headings:

<*Please insert the Action budget structure*>

[8] Some degrees of flexibility in the implementation of the budget are allowed. The rule proposed in the grant agreement/decision 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/decision (some grant agreements/decisions have 15% or 20% flexibility). Any changes within the limit specified in the grant agreement/decision didn't require the beneficiary's request for amending the grant agreement/decision.

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

Expenditure headings xx to xx represent the direct[9] costs of the Action. Expenditure headings can be broken down into expenditure subheadings such as for example <insert 1 example>. 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%.

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

(1) Eligibility of costs

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

– Costs actually incurred (Article XX):

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.

[9] To be adapted in the case of Operating Grant Agreement/Decision.

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

– Cut-off - Implementation period (Article XX):

  The auditor verifies that the expenditure for a selected item was incurred during the period of implementation or eligibility in accordance with Article XX of the Grant Agreement/Decision. 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 Annex XX of the Grant Agreement/Decision.

– 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 (Article XX):

  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 (Article XX):

  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[10], e.g. if the beneficiary is using business class flights for the project whereas its normal policy is for employees to fly economy.

– Compliance with sub-contracting and procurement 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.

  Where applicable, the auditor examines which procurement rules (as provided for by the Grant Agreement/Decision) 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.

(2) Direct costs (Article XX)

[10] See 'Glossary' for a definition of ‘excessive or reckless expenditure’.

The auditor verifies the selected expenditure items by carrying out the procedures listed above under (1). In addition, the following specific guidance is provided with regards to staff costs and other direct costs:

(a) Staff costs

(i) The auditor verifies the employment status and conditions of employment of the personnel.

For the employees selected, the auditor checks that they were:

- directly hired[11] by the beneficiary[12] in accordance with its national legislation;
- hired under the technical supervision and responsibility of the beneficiary alone;
- remunerated in accordance with the beneficiary's normal practice[13] for its activities, whether or not funded by the EU.

Any employment contract which 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 (e.g. payslips), the auditor should accept certified copies.

What is the objective of this procedure?

The Agency seeks to ensure that personnel costs actually relate to employees of the beneficiary carrying out the Action or the Work Programme, and to identify cases where this component may have been effectively 'outsourced' to a different entity despite this not having been provided for in the Grant Agreement/Decision. The Agency also seeks to ensure that no special employment conditions are applied in the case of employees working on the Action 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).

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

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[11] See 'Glossary' for a definition of 'directly hired'.

[12] 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 20).

[13] Please refer to the 'Glossary' (page 17) for further details.

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).

Directly hired[14]: Exceptions should be highlighted if there are indications in the contract that the employee has been hired by a different legal entity, including a legal entity within the same group (e.g. if the beneficiary is XYZ and the contract is with XYZ registered in a different country).
Another exception would be if the employee's services are being charged via a service company or other consulting type arrangement.

Remunerated in accordance with the normal practice of the beneficiary: Typical examples of exceptions would include the employee being remunerated by way of a 'lump sum' instead of via a salary arrangement, or any other form of payment / charging which does not form part of the normal practice of the beneficiary.

(ii) The auditor examines employees' time recording (paper / computer, daily / weekly / monthly, signed, authorised).

What is the objective of this procedure?

This procedure will provide the Agency with the information it needs to assess whether the recording of project time is in line with the costs charged for staff working on the project.

Normally, time recording should be carried out regularly and authorised by the project manager to ensure that the time worked on the Action can be traced and charged correctly. For the employees selected, the hours charged to the Action should have been accurately recorded in the time recording system. Any discrepancies between the amount charged to the Action and the amount in the recording system should be recorded as an exception, as should the absence of a recording system.

Which documents should the beneficiary prepare for the auditor?

The beneficiary should provide a description of the time-recording system and, for the employees selected for testing, make available all the time sheets[15] or provide full access to the computer system which records the time of the employees. The auditor should be able to trace the time charged for the sample selected to the time records of each individual employee.

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

[14] See 'Glossary' for a definition of 'directly hired'.

[15] For the Tempus Programme please refer to the 'Staff Conventions'.

(iii) For the employees selected, the auditor verifies the daily rate by dividing the actual personnel costs by the actual working days[16], and then comparing it to the daily rate charged by the beneficiary.

What is the objective of this procedure?

The objective of this check is to verify that the daily rates being charged have been correctly calculated from the actual underlying cost information for the period in question, namely the costs to the employer (salary / wages, including benefits and other employment costs), divided by the number of working days with reconciliation of the payroll information for the selected employees to the accounting records and payments.

Which documents should the beneficiary prepare for the auditor?

The actual payroll information for the period in question (base salary, benefits of all kinds, pension contributions, employers' payroll taxes, social security contributions, etc.) and working days[17] figures used to calculate the daily rates. The beneficiary should also provide a reconciliation/calculation showing how the daily rates were calculated from the payroll information.

If the working days or costs of personnel cannot be identified *or justified by the beneficiary*, they must be listed (together with the amounts) as exceptions.

What employment costs are not considered eligible or should be regarded as exceptions?

Generally, all employment costs which are part of the normal remuneration policy of the beneficiary are accepted. Costs which have been charged and which relate specifically to involvement in European projects, and are not part of these normal remuneration and/or accounting principles, should be noted as exceptions.

(b) Other direct costs

For the purpose of these guidance notes, the heading 'Other direct costs' refers generically to all direct cost categories within the approved budget other than staff costs, for example, travel & subsistence, equipment, or production & dissemination costs, etc. <List to be customised according to the Programme>.

Which documents should the beneficiary prepare for the auditor?

For most transactions in these cost categories, it should be sufficient proof of expenditure if the beneficiary has kept original third-party invoices (or certified copies for co-beneficiaries).

[16] See 'Glossary' for definition of 'Staff working time (working days)'.

[17] See 'Glossary' for a description of 'working days'.

For air travel costs, please also note that flight tickets and boarding passes may represent suitable documentation where both the cost of the trip and passengers' names / dates / place of departure and destination are evident.

What are the most common errors made by beneficiaries for 'Other direct costs'?

a) General: invoices are not detailed enough to establish a clear connection to project activities.

<Bullet points below to be customised according to the Programme>

b) Subsistence: subsistence costs claimed may be in excess of the maximum daily rates published in the call for proposal / provided for in the Grant Agreement/Decision.

c) Equipment:

- depreciation may not be calculated correctly in accordance with the terms of the Grant Agreement / Decision;
- the full cost of an item of equipment may be claimed where it should have been depreciated.

d) Production/ dissemination: the beneficiary may not have kept proof of outputs produced e.g. booklets, leaflets, publications, website publicising the Action or Work Programme.

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 Chapters XX and XX of the Administrative and Financial Handbook/Programme Guide for detailed guidance on both cost eligibility and documentary requirements for each category of 'Other direct costs'.

(3) Indirect Costs (Article XX)

The auditor verifies that the indirect costs to cover administrative overheads do not exceed 7% of the total amount of eligible direct costs of the Action. [Delete if not applicable: Please note that transfers between the budget headings 'Direct cost' and 'Indirect costs' are not permitted].

This paragraph applies only to Grants for an Action as in the Operating Grants there is no specific category for indirect costs.

(4) Ineligible Costs (Article XX)

The auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in Article XX of the General Conditions [and/or in Annex XX] of the Grant Agreement/Decision.

(5) Contributions in kind [18] (Article XX)

If contributions in kind are provided for they must be indicated and valued in the budget for the Action and/or in the Grant Agreement/Decision.

The auditor verifies that any contribution in kind included in the initial budget has been delivered to the beneficiary and that the values declared in the Final Financial Report match the values entered in the initial budget.

The auditor verifies that the values entered for the contributions in kind in the Final Financial Report are correct.

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/Decision 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, [delete if not applicable, i.e. calls 2012 interest earned on pre-financing) have been allocated to the Action and disclosed in the Final Financial Report. For this purpose the auditor should consult the beneficiary and examines documentation obtained from the beneficiary, e.g. income accounts in the General Ledger[19].

[18] Delete if not applicable.

[19] See 'Glossary' for definition of '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/Decision.

RESPONSIBLE AUTHORISING OFFICER (RAO)

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

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 (included the Programme Guide/Handbook[20]) and the Grant Agreement/Decision 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 (or to whom a Decision has been addressed). 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

[20] Delete if not applicable.

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 or Work Programme. 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 or Work Programme.

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/Decision, 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/Work Programme.

FINAL FINANCIAL REPORT

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

FINANCIAL STATEMENTS

In the context of these guidance notes, Financial Statements refers to the statutory accounts of the beneficiary which are composed of:

1. Statement of Financial Position (also referred to as 'Balance Sheet');
2. Statement of Comprehensive Income (also referred to as 'Profit and Loss Statement' or 'P&L');
3. Statement of Changes in Equity;
4. Statement of Cash Flows; and
5. Notes to the Financial Statements.

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
Illness/Others	-10
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/Decision;

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/Decision concerning *<title of the Action and number of the grant contract>* (the 'Grant Agreement' / 'Decision'). Where in this letter the 'Agency' is mentioned this refers to the Agency in its capacity as signatory of the Grant Agreement/Decision 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/Decision with the Agency.

- The beneficiary is responsible for providing the Agency with a Final Financial Report for the Action financed by the Grant Agreement/Decision which complies with the terms and conditions of the Grant Agreement/Decision 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/Decision <Agreement/ Decision 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/Decision.

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 XX of the Grant Agreement/Decision. 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/Decision.

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/Decision

[Annex to be completed by the beneficiary]

Information about the Grant Agreement/Decision	
Reference number and date of the Grant Agreement/Decision	<Agency's reference of the Grant Agreement/Decision >
Programme	
Grant Agreement/Decision subject	
Country	
Beneficiary	< full name and address of the beneficiary as indicated in the Grant Agreement/Decision >
Start date of the Action	
End date of the Action	
Total cost of the Action	<amount in Art. I.XX of the Special Conditions of the Grant Agreement/Decision>
Grant maximum amount	<amount in Art. I.XX of the Special Conditions of the Grant Agreement/Decision>
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

1. General procedures

a) Terms and Conditions of the Grant Agreement/Decision

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

- a signed copy of the Grant Agreement/Decision, 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 and co-beneficiaries' legal and VAT status

The auditor confirms the legal status of the beneficiary and co-beneficiaries, and thus determines the treatment of VAT, which should fall into one of the following three categories:

- Public body: entitled or not to recover VAT;
- Private entity entitled to recover VAT (including the percentage that the entity is entitled to recover);
- Private entity not entitled to recover VAT.

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.

[For the Tempus Programme only: specific rules contained in Articles I.11.8 and II.14.4 of the Grant Agreement on VAT apply].

c) Final Financial Report and the Grant Agreement/Decision

- The Final Financial Report must conform to the model in Annex XX of the Grant Agreement/Decision;
- 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.

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 Article XX of the General Conditions of the Grant Agreement/Decision;
- 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;
- [Delete if not applicable: The accounts must provide details of interest accrued on funds paid by the Agency].

e) Exchange Rates

The auditor verifies that amounts of expenditure incurred in a currency other than the euro have been converted in accordance with the provisions of Article XX of the Grant Agreement/Decision. Where the beneficiary is required to use the website of the Commission, this refers to InforEuro[21].

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 XX of the General Conditions). **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.

Annex XX of the Grant Agreement/Decision provides a list of the types and nature of evidence that the auditor will often find in expenditure verifications.[paragraph to be deleted where such guidance/ Annex does not exist]

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;

[21] http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm

- The auditor verifies whether there have been amendments to the budget of the Grant Agreement/Decision;
- The auditor verifies that the budget in the Final Financial Report corresponds[22] to the budget of the Grant Agreement/Decision (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Agreement/Decision;
- 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 Article XX of the Grant Agreement/Decision 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 under the following expenditure headings:

<*Please insert the Action budget structure*>

Expenditure headings xx to xx represent the direct[23] costs of the Action. Expenditure headings can be broken down into expenditure subheadings such as for example <insert 1 example>. 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%.

On what basis should expenditure items be selected for verification?

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[22] Some degrees of flexibility in the implementation of the budget are allowed. The rule proposed in the grant agreement/decision 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/decision (some grant agreements/decisions have 15% or 20% flexibility). Any changes within the limit specified in the grant agreement/decision didn't require the beneficiary's request for amending the grant agreement/decision.

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

[23] To be adapted in the case of Operating Grant Agreement/Decision.

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

(a) Eligibility of costs

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

– Costs actually incurred (Article XX):

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 (Article XX):

The auditor verifies that the expenditure for a selected item was incurred during the period of implementation or eligibility in accordance with Article XX of the Grant Agreement/Decision. 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 Annex XX of the Grant Agreement/Decision.

– 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 (Article XX):

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 (Article XX):

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[24], e.g. if the beneficiary is using business class flights for the project whereas its normal policy is for employees to fly economy.

– Compliance with sub-contracting and procurement 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.

Where applicable, the auditor examines which procurement rules (as provided for by the Grant Agreement/Decision) 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.

(b) Direct costs (Article XX)

The auditor verifies the selected expenditure items by carrying out the procedures listed above under (1). In addition, the following specific guidance is provided with regards to staff costs and other direct costs:

(c) Staff costs

(i) The auditor verifies the employment status and conditions of employment of the personnel.

For the employees selected, the auditor checks that they were:

– directly hired[25] by the beneficiary[26] in accordance with its national legislation;

– hired under the technical supervision and responsibility of the beneficiary alone;

– remunerated in accordance with the beneficiary's normal practice[27] for its activities, whether or not funded by the EU.

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

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[24] See 'Glossary' for a definition of ‘excessive or reckless expenditure’.

[25] See 'Glossary' for a definition of 'directly hired'.

[26] 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 20).

[27] Please refer to the ‘Glossary’ (page 17) for further details.

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

What is the objective of this procedure?

The Agency seeks to ensure that personnel costs actually relate to employees of the beneficiary carrying out the Action or the Work Programme, and to identify cases where this component may have been effectively 'outsourced' to a different entity despite this not having been provided for in the Grant Agreement/Decision. The Agency also seeks to ensure that no special employment conditions are applied in the case of employees working on the Action 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).

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned (e.g. payslips), 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).

Directly hired[28]: Exceptions should be highlighted if there are indications in the contract that the employee has been hired by a different legal entity, including a legal entity within the same group (e.g. if the beneficiary is XYZ and the contract is with XYZ registered in a different country).
Another exception would be if the employee's services are being charged via a service company or other consulting type arrangement.

Remunerated in accordance with the normal practice of the beneficiary: Typical examples of exceptions would include the employee being remunerated by way of a 'lump sum' instead of via a salary arrangement, or any other form of payment / charging which does not form part of the normal practice of the beneficiary.

(ii) The auditor examines employees' time recording (paper / computer, daily / weekly / monthly, signed, authorised).

What is the objective of this procedure?

[28] See 'Glossary' for a definition of 'directly hired'.

This procedure will provide the Agency with the information it needs to assess whether the recording of project time is in line with the costs charged for staff working on the project.

Normally, time recording should be carried out regularly and authorised by the project manager to ensure that the time worked on the Action can be traced and charged correctly. For the employees selected, the hours charged to the Action should have been accurately recorded in the time recording system. Any discrepancies between the amount charged to the Action and the amount in the recording system should be recorded as an exception, as should the absence of a recording system.

Which documents should the beneficiary prepare for the auditor?

The beneficiary should provide a description of the time-recording system and, for the employees selected for testing, make available all the time sheets[29] or provide full access to the computer system which records the time of the employees. The auditor should be able to trace the time charged for the sample selected to the time records of each individual employee.

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

(iii) For the employees selected, the auditor verifies the daily rate by dividing the actual personnel costs by the actual working days[30], and then comparing it to the daily rate charged by the beneficiary.

What is the objective of this procedure?

The objective of this check is to verify that the daily rates being charged have been correctly calculated from the actual underlying cost information for the period in question, namely the costs to the employer (salary / wages, including benefits and other employment costs), divided by the number of working days with reconciliation of the payroll information for the selected employees to the accounting records and payments.

Which documents should the beneficiary prepare for the auditor?

The actual payroll information for the period in question (base salary, benefits of all kinds, pension contributions, employers' payroll taxes, social security contributions, etc.) and working days[31] figures used to calculate the daily rates. The beneficiary should also provide a reconciliation/calculation showing how the daily rates were calculated from the payroll information.

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[29] For the Tempus Programme please refer to the 'Staff Conventions'.

[30] See 'Glossary' for definition of 'Staff working time (working days)'.

[31] See 'Glossary' for a description of 'working days'.

If the working days or costs of personnel cannot be identified *or justified by the beneficiary*, they must be listed (together with the amounts) as exceptions.

What employment costs are not considered eligible or should be regarded as exceptions?

Generally, all employment costs which are part of the normal remuneration policy of the beneficiary are accepted. Costs which have been charged and which relate specifically to involvement in European projects, and are not part of these normal remuneration and/or accounting principles, should be noted as exceptions.

(d) Other direct costs

For the purpose of these guidance notes, the heading 'Other direct costs' refers generically to all direct cost categories within the approved budget other than staff costs, for example, travel & subsistence, equipment, or production & dissemination costs, etc. <List to be customised according to the Programme>.

Which documents should the beneficiary prepare for the auditor?

For most transactions in these cost categories, it should be sufficient proof of expenditure if the beneficiary has kept original third-party invoices (or certified copies for co-beneficiaries).

For air travel costs, please also note that flight tickets and boarding passes may represent suitable documentation where both the cost of the trip and passengers' names / dates / place of departure and destination are evident.

What are the most common errors made by beneficiaries for 'Other direct costs'?

a) General: invoices are not detailed enough to establish a clear connection to project activities.

<Bullet points below to be customised according to the Programme>

b) Subsistence: subsistence costs claimed may be in excess of the maximum daily rates published in the call for proposal / provided for in the Grant Agreement/Decision.

c) Equipment:

- depreciation may not be calculated correctly in accordance with the terms of the Grant Agreement / Decision;
- the full cost of an item of equipment may be claimed where it should have been depreciated.

d) Production/ dissemination: the beneficiary may not have kept proof of outputs produced e.g. booklets, leaflets, publications, website publicising the Action or Work Programme.

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 Chapters XX and XX of the Administrative and Financial Handbook/Programme Guide for detailed guidance on both cost eligibility and documentary requirements for each category of 'Other direct costs'.

(c) Indirect Costs (Article XX)

The auditor verifies that the indirect costs to cover administrative overheads do not exceed 7% of the total amount of eligible direct costs of the Action. [Delete if not applicable: Please note that transfers between the budget headings 'Direct cost' and 'Indirect costs' are not permitted]. **This paragraph applies only to Grants for an Action as in the Operating Grants there is no specific category for indirect costs.**

(d) Ineligible Costs (Article XX)

The auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in Article XX of the General Conditions [and/or in Annex XX] of the Grant Agreement/Decision.

(e) Contributions in kind [32] (Article XX)

If contributions in kind are provided for they must be indicated and valued in the budget for the Action and/or in the Grant Agreement/Decision.

The auditor verifies that any contribution in kind included in the initial budget has been delivered to the beneficiary and that the values declared in the Final Financial Report match the values entered in the initial budget.

The auditor verifies that the values entered for the contributions in kind in the Final Financial Report are correct.

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/Decision 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

[32] Delete if not applicable.

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, [delete if not applicable, i.e. calls 2012 interest earned on pre-financing) have been allocated to the Action and disclosed in the Final Financial Report. For this purpose the auditor should consult the beneficiary and examines documentation obtained from the beneficiary, e.g. income accounts in the General Ledger[33].

[33] 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/Decision *[Grant Agreement/Decision 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/Decision. 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.

Beneficiary's VAT status

We confirm the legal status of the beneficiary:

– Public body: entitled or not to recover VAT;
– Private entity entitled to recover VAT (including the percentage that the entity is entitled to recover);
– Private entity not entitled to recover VAT.

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 Articles XX of the Grant Agreement/Decision. 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>

Annex to the compulsory report format

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' (page 20).

Budget heading	**Budget item under exception**	**Reference**	**Reason for the exception**	**Amount**
e.g. Direct costs	Subsistence	No XX/12	Exceed ceiling	EUR 200