



EUROPEAN COMMISSION  
DIRECTORATE-GENERAL FOR EDUCATION AND CULTURE  
**Lifelong learning: higher education and international affairs**  
Cooperation and International programmes; Jean Monnet

## **ANNEX VI MODEL TERMS OF REFERENCE FOR THE CERTIFICATE ON THE FINANCIAL STATEMENTS PART I**

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## Part 1

### **Terms of Reference for the certificate on the financial statements of a European Union (DG EAC) financed Operating Grant Agreement**

The following are the Terms of Reference ('ToR') on which *<name of the Beneficiary>* 'the Beneficiary' agrees to engage *<name of the audit firm>* 'the Auditor' to perform an expenditure verification and to report in connection with a European Union financed grant Agreement concerning *<title and number of the Grant Agreement>* (the 'Grant Agreement'). The Commission is not a party to this engagement.

The report signed in accordance with the present ToR for an Expenditure Verification corresponds with the requirements of article 207.3 of the Rules of Application of the Financial Regulation requiring the use of audit certificates before certain amount of grant can be paid.

#### **1 Responsibilities of the Parties to the Engagement**

'**The Beneficiary**' refers to the organisation that is receiving the grant funding and that has signed the Grant Agreement with the Commission.

The Beneficiary is responsible for providing a Final Activity Report and Financial Statement for the Activities foreseen by the work programme and financed by the Grant Agreement and for ensuring that this Final Activity Report and Financial Statement can be properly reconciled to the Beneficiary's accounting and bookkeeping system and to the underlying accounts and records.

'**The Auditor**' refers to the Auditor who is responsible for performing the certificate on financial statement as specified in these ToR, and for submitting a report of factual findings to the Beneficiary.

The Auditor is a member of *<specify the name of the national accounting or auditing body or institution of which the Auditor is a member>* which in turn is a member of the International Federation of Accountants (IFAC).

#### **2 Subject of the Engagement**

The subject of this engagement is the *<interim or final; delete what is not applicable>* Final Activity Report and Financial Statement in connection with the Grant Agreement for the period covering *<dd Month yyyy to dd Month yyyy>*. The information, both financial and non-financial, which is subject to verification by the Auditor, is all information which makes it possible to verify that the expenditure claimed by the Beneficiary in the Final Activity Report and Financial Statement has occurred, and is accurate and eligible. Annex 1 to these ToR contains an overview of key information about the Grant Agreement and the Activities concerned.

#### **3 Reason for the Engagement**

The Beneficiary is required to submit to the Commission a certificate on the financial statements produced by an external auditor in support of the payment requested by the Beneficiary under Article II.123.2(d) of the General Conditions and Article I.4.1 of the Special Conditions of the Grant Agreement. The Authorising Officer of the Commission requires this report as he makes the payment of expenditure requested by the Beneficiary conditional on the factual findings of this report.

#### **4 Engagement Type and Objective**

This constitutes an engagement to perform specific agreed-upon procedures regarding an expenditure verification of a European Union financed Grant Agreement. The objective of this expenditure verification is for the Auditor to verify that the expenditure claimed by the Beneficiary in the Final

Activity Report and Financial Statement for the Activities foreseen by the work programme and financed by the Grant Agreement has occurred ('reality'), is accurate ('exact') and eligible and to submit to the Beneficiary a report of factual findings with regard to the agreed-upon procedures performed. Eligibility means that the funds provided by the grant have been spent in accordance with the terms and conditions of the Grant Agreement.

As this engagement is not an assurance engagement the Auditor does not provide an audit opinion and expresses no assurance. The Commission derives its assurance by drawing its own conclusions from the factual findings reported by the Auditor on the Final Activity Report and Financial Statement and the payment request of the Beneficiary relating thereto.

## 5 Scope of Work

### ***5.1 The Auditor shall undertake this engagement in accordance with these ToR and:***

- 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;
- in compliance with 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 Commission requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

### ***5.2 The Terms and Conditions of the Grant Agreement***

The Auditor verifies that the funds provided by the grant were spent in accordance with the terms and conditions as required by the Grant Agreement.

### ***5.3 Planning, procedures, documentation and evidence***

The Auditor should plan the work so that effective expenditure verification can be performed. For this purpose he performs the procedures specified in Annex 2 of these ToR ('Scope of Work – Procedures to be performed') and he uses the evidence obtained from these procedures as the basis for the report of factual findings. The Auditor should document matters which are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance with ISRS 4400 and these ToR.

## 6 Reporting

The report on this expenditure verification should describe the purpose and the agreed-upon procedures of the engagement in sufficient detail in order to enable the Beneficiary and the Commission to understand the nature and extent of the procedures performed by the Auditor. The auditor should use the reporting formats of part 2 of these ToR.

## Annex 1

### Information about the Subject of the Expenditure Verification

[The table below should be completed by the Beneficiary and be attached as Annex 1 to the Terms of Reference for use by the Auditor.]

Information about the Subject of the Expenditure Verification	
Reference number and date of the Grant Agreement	<Commission's reference of the Grant Agreement>
Grant Agreement title	
Beneficiary	<Full name and address of the Beneficiary as per the Grant Agreement>
Start date of the Activities	
End date of the Activities	
Total eligible costs of the Activities	<Amount in Art. I.3 of the Special Conditions of the Grant Agreement and estimated budget Annex III>
Grant maximum amount	<Amount in Art. I.3 of the Special Conditions of the Grant Agreement>
Total amount received to date by the Beneficiary from Commission	<Total amount received as per dd.mm.yyyy>
Total amount of the payment request	<provide the total amount requested for payment as per payment arrangements in Article I.4 of the Special Conditions for Grant Agreements.
Auditor	<Name and address of the audit firm and names/positions of the auditors>

### **Scope of Work – Procedures to be performed**

The Auditor designs and carries out his verification work programme in accordance with the objective and scope of this engagement and the procedures to be performed as specified below. When performing these procedures the Auditor may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations.

The Auditor obtains sufficient appropriate verification evidence from these procedures to be able to draw up a report of factual findings. For this purpose the Auditor can refer to the guidance provided by International Standard on Auditing 500 “Audit Evidence” and in particular by the paragraphs relating to ‘sufficient appropriate audit evidence’. The Auditor exercises professional judgment as to what is sufficient appropriate verification evidence where he believes that the guidance provided by ISA 500, the terms and conditions of the Grant Agreement and the ToR for this engagement are not sufficient.

The General Conditions of the Grant Agreement Annex II and notably Article II.27 thereof provide guidance on the types and nature of expenditure that the Auditor may often find in expenditure verifications.

#### **1 Obtaining a sufficient understanding of the Activities foreseen by the work programme and of the Terms and Conditions of the Grant Agreement**

The Auditor obtains a sufficient understanding of the terms and conditions of the Grant Agreement by reviewing the Grant Agreement and its annexes and other relevant information, and by inquiry of the Beneficiary. The Auditor ensures that he obtains a copy of the original Grant Agreement (signed by the Beneficiary and the Commission) with its annexes. The Auditor obtains and reviews copies of the <interim/final> Technical Implementation Report and Final Activity Report and Financial Statement (Annex IV of the Grant Agreement).

The Auditor pays particular attention to Annex I of the Grant Agreement, which contains the Beneficiary's work programme and Annex III (Beneficiary's operating budget). If the Auditor finds that the terms and conditions to be verified are not sufficiently clear he should request clarification from the Beneficiary.

#### **2 Procedures to verify the eligibility of expenditure claimed by the Beneficiary in the Final Activity Report and Financial Statement**

##### **2.1 General Procedures**

2.1.1 The Auditor verifies that the Final Activity Report and Financial Statement comply with the conditions of the Grant Agreement.

2.1.2 The Auditor examines whether the Beneficiary has complied with the rules for accounting and record keeping of the Grant Agreement notably with Article II.27.2 of the General Conditions. The purpose of this is:

- To assess whether an efficient and effective expenditure verification of the Final Activity Report and Financial Statement is feasible; and
- To report important exceptions and weaknesses with regard to accounting, record keeping and documentation requirements so that the Beneficiary can undertake follow-up measures for correction and improvement for the remaining implementation period of the Activities.

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

2.1.4 The Auditor verifies that the correct exchange rates have been applied for currency conversions where applicable and in accordance with the conditions of the Grant Agreement notably Article II.23.4 of the General Conditions.

## **2.2 Conformity of Expenditure with the Budget and Analytical Review**

The Auditor carries out an analytical review of the expenditure categories in the Final Activity Report and Financial Statement and:

- verifies that the budget in the Final Activity Report and Financial Statement corresponds with the Beneficiary's operating budget of the Grant Agreement (authenticity and authorisation of the initial Budget) and that the expenditure incurred was foreseen in the operating budget (Annex II of the Grant Agreement).
- verifies that the total amount claimed for payment by the Beneficiary does not exceed the maximum grant laid down in Article I.3 of the Special Conditions of the Grant Agreement.
- verifies that any amendments to the Budget of the Grant Agreement comply with the conditions for such amendments (including where applicable the requirement for an addendum to the Grant Agreement) as set out in Article II.22 of the General Conditions.
- verifies that the conditions for profit in Article II.25.3 of the General Conditions were respected.

## **2.3 Selecting Expenditure for Verification**

### **2.3.1 Expenditure Categories, Subcategories and Items**

The expenditure claimed by the Beneficiary in the Final Activity Report and Financial Statement is presented under a number of expenditure categories, which on their turn can be broken down into expenditure subcategories.

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

### **2.3.2 Selecting Expenditure Items**

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

Moreover, the Auditor uses his judgment to select specific expenditure items or classes of expenditure items. The Auditor may use factors such as his knowledge of the Beneficiary's work programme, the activities and the characteristics of the expenditure categories, classes and items being verified such as for example expenditure items that are unusual or inherently risky or error prone.

## 2.4 Verification of Expenditure

The Auditor verifies the expenditure and reports all the exceptions resulting from this verification. Verification exceptions are all verification deviations found when performing the procedures should be set out in an Annex to the Auditor's report. In all cases the Auditor assesses the (estimated) financial impact of exceptions in terms of ineligible expenditure. The Auditor reports all exceptions found including the ones of which he cannot measure the financial impact. Having selected the expenditure items the Auditor verifies them by testing for the criteria set out below.

### 2.4.1 Eligibility of Direct Costs

The Auditor verifies the eligibility of direct costs with the terms and conditions of the Grant Agreement notably Article II.19 of the General Conditions. He verifies that these costs:

- are necessary for carrying out the work programme. In other words the Auditor verifies that expenditure for a transaction or activity has been incurred for the intended purpose of the work programme and that it has been necessary for the activities and objectives of the work programme. The Auditor further verifies that the direct costs are provided for in the Grant Agreement Budget and comply with the principles of sound financial management, in particular value for money and cost effectiveness;
- have actually been incurred by the Beneficiary or his partners during the period of eligibility as defined in Article I.2 of the Special Conditions;
- are recorded in the accounts of the Beneficiary and are identifiable, verifiable and substantiated by originals of supporting evidence.

The Auditor also considers non-eligible costs as described in Article II.19.4 of the General Conditions. In this respect the Auditor verifies in particular whether expenditure includes certain taxes, including VAT. If this is the case the Auditor verifies whether the Beneficiary (or, where applicable the partners) cannot reclaim these taxes and whether the applicable regulations, rules and practices in the country concerned allow the coverage of these taxes in the expenditure.

### 2.4.2 Accuracy and Recording

The Auditor verifies that expenditure for a transaction or activity has been accurately and properly recorded in the Beneficiary's accounting system and the Final Activity Report and Financial Statement and that it is supported by appropriate evidence and supporting documents. This includes proper valuation and the use of correct exchange rates.

### 2.4.3 Classification

The Auditor verifies that expenditure for a transaction or activity has been classified under the correct category and subcategory of the Final Activity Report and Financial Statement.

### 2.4.4 Reality (occurrence / existence)

The Auditor exercises professional judgment to obtain sufficient appropriate verification evidence as to whether the expenditure has occurred (reality and quality of the expenditure) and - where applicable - assets exist. The Auditor verifies the reality and quality of the expenditure for a transaction or activity by examining proof of work done, goods received or services rendered on a timely basis, at acceptable and agreed quality and at reasonable prices or costs.

## **2.5 Verification Coverage of Expenditure**

The Auditor applies the principles and criteria set out below when planning and performing the procedures for expenditure verification of Sections 2.3 and 2.4 above. This allows the Auditor to rationalise his verification work.

Verification by the Auditor and verification coverage of expenditure items does not necessarily mean a complete and exhaustive verification of all the expenditure items that are included in a specific expenditure category or subcategory. The Auditor should ensure a systematic and representative verification but depending on certain conditions (see further below) the Auditor may obtain satisfactory verification results for an expenditure category or subcategory by looking at a limited number of selected expenditure items.

The Auditor may apply statistical sampling techniques for the verification of one or more expenditure categories or subcategories of the Final Activity Report and Financial Statement. For this purpose the Auditor examines whether the 'populations' (i.e. expenditure subcategory or classes of expenditure items within an expenditure subcategory) are suitable and sufficiently large (i.e. they should be made up of a large amount of items) for effective statistical sampling. This enables the Auditor to obtain and evaluate verification evidence to form a conclusion on the total of the population from which the sample is drawn. The Auditor may refer to IFAC International Standard on Auditing 530 'Audit sampling and other selective testing procedures' for guidance.

### **2.5.1 Expenditure Coverage Ratio ('ECR')**

The Expenditure Coverage Ratio ('ECR') is equal to 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 Activity Report and Financial Statement and declared by the Beneficiary in the interim or final Final Activity Report and Financial Statement of introduced according to Article I.4 of the Grant Agreement. The Auditor ensures that the overall ECR is at least **65 %**. The Auditor selects expenditure items (see Section 2.3.2). If he finds an exception rate of less than 2 % of the total amount of expenditure verified the Auditor finalises verification procedures and continues with reporting. If the exception rate found is higher than 2 % the Auditor extends verification procedures until the ECR is at least **85 %**. The Auditor then finalises verification procedures and continues with reporting regardless of the total exception rate found.

## **2.6 Verification of Revenues in respect of the work programme**

The Auditor verifies that receipts limited to the income generated by the Work Programme and to the financial contributions specifically assigned by donors to eligible costs, have been declared in the Final Activity Report and Financial Statement.





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## **ANNEX VI MODEL TERMS OF REFERENCE FOR THE CERTIFICATE ON THE FINANCIAL STATEMENTS FOR OPERATING GRANT PART II**

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**CHAPTER 2** **PROCEDURES PERFORMED AND FACTUAL FINDINGS**

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## Part 2

# Report of Factual Findings for an Expenditure Verification of a EU financed Operating Grant Agreement

*To be printed on letterhead paper of the Auditor*

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

<Beneficiary's name>

<Beneficiary's address>

<dd Month yyyy>

Dear <Name of contact person(s)>,

In accordance with our contract dated <dd Month yyyy> with <name of the Beneficiary> "the Beneficiary" and the Terms of Reference attached thereto (Annex 1 of this Report), we provide our Report of Factual Findings ("the Report"), with respect to the annexed Final Activity Report and Financial Statement you provided for the period covering <dd Month yyyy - dd Month yyyy> (Annex 2 of the Report). You requested certain procedures to be carried out in connection with the Grant Agreement concerning [title and number of the contract], the 'Grant Agreement'. The Report consists of this letter and the Report details set out in Chapters 1 and 2.

### Objective

Our engagement was an engagement to perform agreed-upon procedures, certificate on the financial statements, regarding the expenditure verification of the Grant Agreement between you and the European Commission. It involved performing certain specified procedures, the results of which the European Commission uses to draw conclusions from the procedures performed by us.

The objective of this expenditure verification is for the Auditor to verify that the expenditure claimed by the Beneficiary in the Final Activity Report and Financial Statement for the activities foreseen by the work programme and financed by the Grant Agreement has occurred ('reality'), is accurate ('exact') and eligible and to submit to the Beneficiary the Report with regard to the agreed-upon procedures performed. Eligibility means that the funds provided by the grant were spent in accordance with the terms and conditions of the Grant Agreement.

### Scope of Work

Our engagement was undertaken in accordance with:

- the Terms of Reference in Annex 1 to this Report and;
- 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 Commission requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

As requested, we have only performed the procedures set out in the Terms of Reference for this engagement and we have reported our factual findings on those procedures in Chapter 3 of this Report.

The scope of these agreed-upon procedures has been determined solely by the Commission and the procedures were performed solely to assist the Commission in evaluating whether the expenditure

claimed by the Beneficiary in the accompanying Final Activity Report and Financial Statement has occurred ('reality'), is accurate ('exact') and eligible.

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

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

### **Sources of Information**

The Report sets out information provided to us by the management of the Beneficiary in response to specific questions or as obtained and extracted from the Beneficiary's information and accounting systems.

In addition we received verbal representations from the Beneficiary's management which we did not obtain in writing [delete if received in written form.]

### **Factual Findings**

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

The Expenditure Coverage Ratio is <xx%>. This ratio represents the total amount of expenditure verified by us expressed as a percentage of the total expenditure which has been subject of this expenditure verification. The latter amount is equal to the total amount of expenditure reported by the Beneficiary in the Final Activity Report and Financial Statement (Annex 2) and declared by the Beneficiary in the <interim or final> Final Activity Report and Financial Statement of <dd Month yyyy> introduced according to Article I.4 of the Grant Agreement.

Based on the agreed-upon procedures that we performed we found that expenditure amounting to <xxxx> € is not eligible. The details of our factual findings including a summary table of the expenditure that is not eligible are presented in Chapter 2 of this Report.

### **Use of this Report**

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

This report is prepared solely for the confidential use of the Beneficiary and the Commission and solely for the purpose of submission to the Commission in connection with the requirements as set out in Article I.4 of the Special Conditions of the Grant Agreement. This report may not be relied upon by the Beneficiary or by the Commission for any other purpose, nor may it be distributed to any other parties. The Commission may only disclose this Report to others who have regulatory rights of access to it in particular the European Anti Fraud Office and the European Court of Auditors.

This Report relates only to the Final Activity Report and Financial Statement specified above and does not extend to any other financial reports of the Beneficiary.

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

Yours sincerely,

<dd Month yyyy>



## Report Details

### Chapter 1 Information about the Grant Agreement and the Activities foreseen by the work programme

*[Chapter 1 should include a description of the work programme and the Grant Agreement, the beneficiary and key financial or budget information. The Auditor should also present a summary of the realised activities]*

### Chapter 2 Procedures Performed and Factual Findings

We have performed the procedures as agreed upon in the Terms of Reference for the certificate on the financial statements of the Grant Agreement concerning <title and number of the action/agreement> (see Annex 1). The factual findings of these procedures are set out under the categories below.

*[Describe the results of procedures performed. Use supporting schedules as Annexes to the Report, if applicable.]*

*[Insert (if any): Details of exceptions...]*

- 1 Obtaining a sufficient Understanding of the work programme and of the terms and conditions of the Grant Agreement
- 2 Procedures to verify the Eligibility of Expenditure claimed by the Beneficiary in the Financial Statement for the Activities

#### 2.1 General Procedures

#### 2.2 Conformity of Expenditure with the Budget and Analytical Review

#### 2.3 Selecting Expenditure for Verification

#### 2.4 Verification of Expenditure

- 2.4.1 Eligibility of Direct Costs
- 2.4.2 Accuracy and recording
- 2.4.3. Classification
- 2.4.4 Reality (Occurrence / existence)
- 2.4.5 Administrative (indirect) costs

#### 2.5 Verification Coverage of Expenditure

- 2.5.1 Expenditure Coverage Ratio ('ECR').
- 2.5.2 Sufficient spread of the ECR over expenditure categories.

#### 2.6 Verification of Revenues in respect of the work programme

### Annex 1 Terms of Reference

### Annex 2 Final Activity Report and Financial Statement as provided by the Beneficiary

