

DG COMMUNICATIONS NETWORKS, CONTENT & TECHNOLOGY

*ICT Policy Support Programme*

*Competitiveness and Innovation Framework Programme*



**Certification of Financial Statements for  
ICT PSP projects**

*Version 1.0 (03-03-2008)*

## Foreword

These guidance notes have been compiled to assist beneficiaries and certifying entities in the preparation of certificates on the financial statements to be submitted under the European Community's ICT Policy Support Programme (ICT PSP)<sup>1</sup>.

The document draws on several documents with which the reader should be familiar:

- ICT PSP model grant agreement; and
- Guide to Financial Issues relating to the ICT PSP Grant Agreements.

The above documents and other documents relating to the ICT PSP can be found at the following web address:

[http://ec.europa.eu/information\\_society/activities/ict\\_psp/calls/grant\\_agreement/index\\_en.htm](http://ec.europa.eu/information_society/activities/ict_psp/calls/grant_agreement/index_en.htm)

The objective of these guidance notes is to give an overview of the requirements and provisions which are of importance in the certification of financial statements. Moreover the guidance note include the compulsory report format and procedures to be performed to be used for the independent report of factual findings on cost claimed under a Grant Agreement financed under the ICT PSP. Note however that the provisions of the signed grant agreement take precedence over these guidance notes.

The text of the document is valid as of the present date however it may be updated if necessary.

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<sup>1</sup> The ICT PSP forms part of the Competitiveness and Innovation Framework Programme (CIP) established by Decision No 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 (OJ L 310, 9.11.2006, p. 15).

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## **1. GENERAL PRINCIPLES**

A certificate on the financial statements (CFS) is an independent report of factual findings produced by an external auditor (in the case of a public body it may be provided by a competent public officer).

The purpose of the report of factual findings is to give to the Commission relevant elements necessary to assess whether costs (and, if relevant, the receipts and interests generated by the pre-financing) charged under the project are claimed by the beneficiaries in accordance with the relevant provisions of the ICT PSP grant agreement.

The submission of a certificate on the financial statements does not waive the right of the Commission or the European Court of Auditors to carry out their own audits.

Notwithstanding the procedures to be carried out, the beneficiary remains at all times responsible and accountable for the accuracy of the financial statement. A beneficiary that has been guilty of making false declarations or has been found to have seriously failed to meet its obligations under the grant agreement is liable to financial penalties according to Article II.31 of the ICT PSP grant agreement.

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

The auditor shall undertake that his work is carried out:

- 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 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 European Commission requires that the auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants.

## **2. CONTRACTUAL REQUIREMENTS**

### **2.1. Certificates on the financial statement**

Article II.4(7) of the ICT PSP grant agreement states that:

*"A certificate on financial statements shall be submitted for claims of interim payments and final payments where the cumulative amount of requests for payment by a beneficiary is equal to or superior to €325 000."*

In addition, the same article states that "the Commission may request, on the basis of an analysis of risks, the submission of a certificate on the financial statement from any beneficiary at any time until the date of the final payment."

The article continues:

*"Certificates on financial statements shall certify that the costs claimed in the financial statements and the receipts declared, as well as the declaration of the interest yielded by the pre-financing, meet the conditions of this grant agreement. They shall be prepared and certified by an external auditor. The format and layout of these certificates shall conform to the rules communicated by the Commission".*

**This document defines the format and the layout for such certificates.**

Furthermore, the article specifies that:

*"Each beneficiary is free to choose any external auditor, including its usual external auditor, provided that they meet both the following professional requirements:*

- *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 Eighth Council Directive 84/253/EEC<sup>2</sup> or Directive 2006/43/EC of the European Parliament and of the Council on statutory audits of annual accounts and consolidated accounts<sup>3</sup> replacing the Eighth Council Directive, or, in the case of beneficiaries established in third countries, national regulations in the same field.*

*Where a beneficiary is a public body, it may opt for a competent public officer to provide its certificate on financial statements, provided that the relevant national authorities have established this officer's legal capacity to audit that entity and that the independence of the officer in particular regarding the preparation of the financial statements, can be ensured.*

*Certificates by external auditors do not affect the liability of beneficiaries under this grant agreement nor the rights of the Community arising from this grant agreement and in particular Article II.28."*

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<sup>2</sup> Council Directive of 10 April 1984, OJ L 126, 12.05.1984, p. 20

<sup>3</sup> Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006, OJ L 157, 9.06.2006, p. 87.

Please note: Beneficiaries in **Thematic Networks** financed by lump sums and flat-rates based on scale-of-unit costs are **not** required to provide certificates on financial statements. They are exempted from the obligation to provide such certificates by means of a special condition introduced in the grant agreement for such Thematic Networks (see Article 8 of the grant agreement).

## **2.2. Specific case of use of personnel costs claimed in accordance with normal practices (based on average personnel costs)**

The grant agreement foresees the possibility to exceptionally claim personnel costs in accordance with normal practices based on average personnel costs rather than on the basis of actual costs by individual. If a beneficiary intends to use its normal practices based on average personnel costs, this should be identified and agreed at negotiation stage and implemented through a special clause.

The special clause states the following:

*"Notwithstanding the provisions of Article II.21(2)(b), the beneficiary(ies) [name(s)]... may claim personnel costs in accordance with its (their) normal practice(s), provided that the personnel costs determined in this way do not significantly differ from the actual costs incurred. If certificates on financial statements are to be submitted in accordance with Article II.4.7, these certificates shall certify that the above conditions for claiming personnel costs are complied with."*

This implies that in this case a certificate, when required under Article II.4(7) of the grant agreement (see Section 2.1 above), will in addition have to certify that personnel costs claimed using normal practices do not significantly differ from actual personnel costs.

It is to be added that if a beneficiary has introduced a request and has been granted approval on the methodology of the calculation of average personnel costs as per the "certificate on the methodology", procedure stipulated under the FP7 grant agreement, the Commission will consider this certification to be equally valid for the purpose of the certification required by the above special condition. In this case, the auditor will have to certify that the methodology used for the calculation of the costs declared in the financial statement of the respective ICT PSP grant agreement is in line with the calculation methodology as accepted by the Commission under the FP7 grant agreement "certification on the methodology".

## **3. AUDITORS ELIGIBLE TO DELIVER CERTIFICATES**

As indicated above, each beneficiary is free to choose a qualified external auditor, including its usual external auditor, provided that the external auditor is independent from the beneficiary and the external auditor is qualified to carry out statutory audits of accounting documents. Beneficiaries established in third countries must comply with national regulations in the same field and the certificate on the financial statement provided will consist of an independent report of factual findings based on procedures specified by the Community.

The services provided by the auditors to the beneficiaries are regarded as subcontracts in the framework of ICT PSP grant agreements and are therefore subject to the

requirements of best value for money (see Article II.6 of the ICT PSP model grant agreement). Beneficiaries shall ensure that the rights of the Commission and the Court of Auditors to carry out audits are extended to the auditors.

Where the beneficiary uses its usual external auditor, it is presumed that the requirements for selection of the auditor required by Article II.6 of the ICT PSP model grant agreement are already fulfilled.

Public bodies have the choice between an external auditor and a competent public officer. Where a public body opts to use a competent public officer, the auditor's independence is usually defined as independence from the audited beneficiary "in fact and/or in appearance". A preliminary condition is that this competent public officer was not involved in any way in drawing up the Financial Statements. Relevant national authorities must establish the legal capacity of the competent public officer to carry out audits of that specific public body. Although it is not compulsory, based on good practice, it is recommended that this is notified by a letter to the Project Officer.

#### **4. COST OF THE CERTIFICATE**

The cost of the certificate on financial statements is an eligible cost in the grant agreement.

If a competent public officer has provided the certificate, then the identifiable direct actual costs of the public officer (gross remuneration and related charges) will be considered eligible. The total amount charged however shall exclude any profit margin.

The price charged for a certificate is subject to the general eligibility criteria of the grant agreement and should consider relevant market prices for similar services. In order to be eligible, the price should in particular be consistent with the requirements of sound financial management, notably regarding economy and efficiency. Excessive or reckless expenditure will be rejected.

The auditor invoices directly to the beneficiary giving a breakdown of the amount of fees charged and the VAT applied. The amount of VAT is not an eligible cost for reimbursement by the Community financial contribution – except if the beneficiary can show that it is unable to recover VAT.

#### **5. PRACTICAL HINTS FOR BENEFICIARIES AND ESSENTIAL BACKGROUND DOCUMENTS**

In order to avoid delays in the submission of the certificates, beneficiaries should select and contract the auditor well in advance. The terms of reference attached to this document should be complied with by the beneficiary and by the auditor.

As a first step it is essential that the auditor fully understands the requirements of the certificates and that the auditor is provided with a complete set of the documents necessary for the certification. In addition to the normal supporting documents needed to perform the required testing procedures, the following documents serve as a basis for certification. The list is not exhaustive.

- Grant agreement signed between the beneficiary and the Commission including amendments (if any) and its Annexes, i.e. Annex I "Description of Work" and Annex

II "General Conditions" (in particular, part C of Annex II sets out financial provisions);

- "Guide to Financial Issues relating to ICT PSP Grant Agreements". These guidelines have been designed to help both beneficiaries and auditors to understand the financial provisions of the ICT PSP model grant agreement; and
- The present guidance notes.

## **6. CERTIFICATE ON THE FINANCIAL STATEMENT**

The Terms of Reference for a certificate on the financial statement are given in Annex I and the compulsory report format to be used for the Report of Factual findings is given in Annex II.



## **ANNEX I: TERMS OF REFERENCE FOR THE CERTIFICATE OF FINANCIAL STATEMENTS**

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 provide an independent report of factual findings on a Financial Statement(s) prepared by the Beneficiary and to report in connection with a European Community financed grant agreement under the ICT Policy Support Programme (ICT PSP), concerning *<title and number of the grant agreement>* (the 'Grant Agreement'). Where in these ToR the 'European Commission' is mentioned this refers to its quality as signatory of the grant agreement with the Beneficiary. The European Community is not a party to this engagement.

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

'The Beneficiary' refers to the legal entity that is receiving the grant and that has signed the Grant Agreement with the European Commission.

- The Beneficiary is responsible for providing a Financial Statement for the Action financed by the Grant Agreement in compliance with such agreements and providing it to the Auditor, and for ensuring that this Financial Statement can be properly reconciled to the Beneficiary's accounting and bookkeeping system and to the underlying accounts and records. Notwithstanding the procedures to be carried out, the Beneficiary remains at all times responsible and liable for the accuracy of the Financial Statement.
- The Beneficiary is responsible for the factual statements which will enable the Auditor to carry out the procedures specified, and will provide the Auditor with a written representation letter supporting these statements, clearly dated and stating the period covered by the statements.
- The Beneficiary accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Beneficiary providing full and free access to the Beneficiary's staff and its accounting and other relevant records.

'The Auditor' refers to the Auditor who is responsible for performing the agreed-upon procedures as specified in these ToR, and for submitting an independent report of factual findings to the Beneficiary.

The Auditor must be independent from the Beneficiary and is either:

- qualified to carry out statutory audits of accounting documents in accordance with the 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; or
- a Competent Public Officer for which the relevant national authorities have established the legal capacity to audit the Beneficiary and has not been involved in the preparation of the financial statements.

The procedures to be performed are specified by the European Commission and the Auditor is not responsible for the suitability and appropriateness of these documents.

## **1.2 Subject of the engagement**

The subject of this engagement is *<the interim or final payment; delete was is not applicable>* related to Financial Statement submitted in connection with the Grant Agreement *<acronym>* for the period *<dd Month yyyy>* to *<dd Month yyyy>*.

## **1.3 Reason for the Engagement**

The Beneficiary is required to submit to the European Commission a certificate on a Financial Statement in the form of an independent report of factual findings produced by an external auditor in support of the payment requested by the Beneficiary under Article II.4.7 of the Grant Agreement. The Authorising Officer of the Commission requires this certificate as he makes the payment of costs requested by the Beneficiary conditional on the factual findings of this report.

## **1.4 Engagement Type and Objective**

This constitutes an engagement to perform specific agreed-upon procedures regarding an independent report of factual findings on costs claimed under the Grant Agreement.

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

The Auditor shall include in its report that no conflict of interest exists between it and the Beneficiary in establishing this report, as well as the fee paid to the Auditor for providing the report.

## **1.5 Scope of Work**

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 European Commission requires that the Auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants.

The Auditor should plan the work so that the procedures can be effectively performed. For this purpose he performs the procedures specified in the 'Compulsory Report Format and Procedures to be Performed' and uses the evidence obtained from these procedures as the basis for the report of factual findings.

## **1.6 Reporting**

The Report of Factual Findings should describe the purpose and the agreed-upon procedures of the engagement in sufficient detail in order to enable the Beneficiary and

the European Commission to understand the nature and extent of the procedures performed by the Auditor. Use of the reporting format given in these Guidelines is compulsory. The report should be written in the language indicated in Article 7 of the Grant Agreement. In accordance with Article II.28 of the Grant Agreement, the European Commission and the Court of Auditors have the right to audit any work carried out under the project for which costs are claimed from the Community, including the work related to this engagement.

### **1.7 Timing**

The report should be provided by *<date>*.

### **1.8 Other Terms**

*<The beneficiary and the Auditor can use this section to agree other specific terms such as Auditor's fee, out of pocket expenses, liability, applicable law, etc.>*

**ANNEX II: COMPULSORY REPORT FORMAT AND PROCEDURES TO BE PERFORMED TO BE USED FOR THE INDEPENDENT REPORT OF FACTUAL FINDINGS ON COST CLAIMED UNDER A GRANT AGREEMENT FINANCED UNDER THE ICT PSP PROGRAMME**

***To be printed on letterhead of the Auditor***

Addressed to [full name and the address of the beneficiary concerned]

In accordance with our contract dated <dd Month yyyy> and the Terms of Reference attached thereto (appended to this report), we provide our independent report of factual findings ("the Report"), as specified below.

We <legal name of the audit firm>, established in <full address/city/state/province/country> represented for signature of this report by <name and function of an authorised representative>, hereby state that:

We have performed agreed-upon procedures regarding the cost declared in the Financial Statement(s) of <name of beneficiary> ("the Beneficiary") hereinafter referred to as the Beneficiary, to which this report is attached, and which is to be presented to the Commission of the European Communities under grant agreement <EC grant agreement reference: title, acronym, number> for the following period(s) <insert period(s) covered by the Financial Statement(s)>.

**Scope of Work**

This engagement involved performing certain specified procedures, the results of which the European Commission uses to draw conclusions as to the eligibility of the costs claimed.

We confirm that our engagement was carried out in accordance with:

- the terms of reference appended 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 European 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 the table appended to this Report.

The scope of these agreed upon procedures has been determined solely by the European Commission and the procedures were performed solely to assist the European Commission in evaluating whether the costs claimed by the Beneficiary in the accompanying Financial Statement has been claimed in accordance with the Grant Agreement. The Auditor is not responsible for the suitability and appropriateness of these procedures.

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

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

### **Sources of Information**

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

### **Factual Findings**

The above mentioned Financial Statement(s) was (were) examined and all procedures specified in the appended table for our engagement were carried out. On the basis of the results of these procedures, we found:

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

Or;

- Partial documentation and accounting information was provided to carry out these procedures. In some cases the Auditor was not able to successfully complete the procedures specified, in particular the following is noted:

- ...

- ...

### **Following exceptions<sup>4</sup> are noted:**

*(List here the exceptions)*

- *These exceptions could refer for example to: inability to reconcile key information, unavailability of data, etc.*

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### **Use of this Report**

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

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<sup>4</sup> Exception: Any fact detected by the auditor while performing a procedure which prevents him from using the standard text of the findings proposed in the model Form. Therefore, whenever the standard text of the findings needs to be modified by the auditor following the application of the procedure, this should be reported as an exception.

This report is prepared solely for the confidential use of the Beneficiary and the European Commission and solely for the purpose of submission to the European Commission in connection with the requirements as set out in Article II.4.7 of the Grant Agreement. This report may not be relied upon by the Beneficiary or by the European Commission for any other purpose, nor may it be distributed to any other parties. The European 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 Financial Statement 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 €<amount in Euro>.

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>

### **Procedures performed by the Auditor**

The Auditor designs and carries out his work 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 European Commission reserves the right to issue guidance together with example definitions and findings to guide the Auditor in the nature and presentation of the facts to be ascertained. The European Commission reserves the right to vary the procedures by written notification to the Beneficiary. The procedures to be performed are listed as follows:

Procedures	Required factual finding
<b>Personnel Costs</b>	
<p>1. Recalculate hourly personnel and overhead rates for personnel (full coverage if less than 20 staff working on the project, otherwise a sample of minimum 20, or 20% of staff working on the project, whichever is the greater), indicate productive hours used and hourly rates.</p> <p>Where sampling is used, selection should be random with a view to producing a representative sample.</p> <p><b>'Productive hours'</b> represent the (average) number of hours made</p>	<p>For each staff working on the project in the sample of ____, the Auditor obtained the personnel costs (salary and employer's costs) from the payroll system together with the productive hours from the time records of each employee.</p> <p>For each employee selected the Auditor recomputed the hourly rate by dividing the actual personnel costs by the number of productive hours. which was then compared to the hourly rate charged by the Beneficiary</p> <p>No exceptions were noted.</p> <p>The average number of productive hours for the staff working on the project selected was _____.</p>

Procedures	Required factual finding
<p>available by the employee in a year after the deduction of holiday, sick leave and other entitlements. This calculation should be provided by the beneficiary.</p>	<p><b>If the productive hours or costs of personnel cannot be identified, they should be listed (together with the amounts) as exceptions in the main report.</b></p>
<p>2. For the same selection examine and describe time recording of staff working on the project (paper/ computer, daily/weekly/monthly, signed, authorised).</p>	<p>Staff working on the project fills in their time on a daily/ weekly/ monthly basis using a paper/computer-based system. The sample records are authorised by the project manager or other superior.</p> <p><b>If no time records are available which fit the above description, this should be listed as an exception in the main report.</b></p>
<p>3. Employment status and employment conditions of personnel. The Auditor should obtain the employment contracts of the staff working on the project selected and compare with the standard employment contract used by the beneficiary. Differences which are not foreseen by the grant agreement should be noted as exceptions.</p>	<p>For the staff working on the project selected, the Auditor inspected their employment contracts and found that they were:</p> <ul style="list-style-type: none"> <li>–directly hired by the Beneficiary in accordance with its national legislation,</li> <li>–working under the sole technical supervision and responsibility of the Beneficiary, and</li> <li>– remunerated in accordance with the normal practices of the Beneficiary(<i>i.e.</i>; <i>practices are common to all employees</i>)</li> </ul> <p><b>Staff who do not meet all three conditions should be listed (together with the amounts) as exceptions in the main report.</b></p>
<p>4. For the 'normal practices/average costing' approach (rather than on the basis of actual costs by individual), the Beneficiary should state:</p> <ul style="list-style-type: none"> <li>— How researchers are grouped into categories (how many categories, under what criteria);</li> <li>— The pay range in each category from lowest to highest, average and median;</li> <li>— The upper and lower percentage variation within each category from the average;</li> <li>— The upper and lower percentage variation for productive hours from the average (if known);</li> <li>— A list of average rates charged in each category for the prior years (an indication only, of the expected range of rates for the period of the agreement).</li> </ul>	<p>Where normal practices/average costs are charged the Auditor successfully reconciled the following information with the accounting system of the Beneficiary:</p> <ul style="list-style-type: none"> <li>• The number of categories;</li> <li>• The pay range, median and average of each category;</li> <li>• The upper and lower percentage variation from the average (denominator is the average);</li> <li>• The upper and lower percentage variation for productive hours from the average (if known);</li> <li>• A list of average rates charged in each category for the prior years (an indication only, of the expected range of rates for the period of the agreement).</li> </ul> <p>The Auditor multiplied the average rate for each category by the total productive hours for each category and reconciled the result to the accounting records.</p> <p>This result ('chargeable' personnel costs) in no case exceeded the actual costs as recorded in the accounting records.</p> <p><i>In such cases where it exceeds, this should be noted under exceptions.</i></p>

Procedures	Required factual finding
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<p>5. Use of 'normal practices/average personnel cost' and the beneficiary introduced a request for certification of their methodology, and for which the Commission has accepted a certification on their methodology in accordance with the terms of reference of the FP7 grant agreements, a simple verification by the auditor that the calculation methodology is in line with that one stipulated under the certification on methodology under the FP7 grant agreement will be considered sufficient.</p>	<p>The Auditor found that the personnel costs charged to the financial statement:</p> <ul style="list-style-type: none"> <li>- are calculated using average costs in accordance with the methodology as specified in the Report of findings on the methodology dates _____</li> <li>- have been calculated using amounts derived from the relevant period which can be reconciled to the accounting records of the relevant period.</li> </ul> <p>The Auditor obtained information from the Beneficiary that the rates used were not budgeted or estimated amounts.</p> <p><b>If amounts cannot be reconciled, or if estimates or budgeted amounts were used, this should be reported as an exception in the main report.</b></p>
<b>Subcontracting</b>	
<p>6. Inspect documents and obtain confirmations that subcontracts are awarded according to the principle of best value for money (best price-quality ratio) under conditions of transparency and equal treatment.</p> <p>Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.</p>	<p>The Auditor obtained tendering documents for each subcontract entered into and observed that a written analysis of value-for-money had been prepared by the Beneficiary in support of the final choice of subcontractor, or that the contract had been awarded as part of an existing framework contract entered into prior to the beginning of the project.</p> <p><b>If the Auditor is not provided with evidence of either of the above situations, the amount of the subcontract should be listed as an exception in the main report.</b></p>
<b>Other Specific Direct Costs</b>	
<p>7. Confirm that allocation of equipment subject to depreciation is correctly identified and allocated to the project.</p> <p>Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater),</p>	<p>The Auditor traced the equipment charged to the project to the accounting records and the underlying invoices. The Beneficiary has documented the link with the project on the invoice and purchase documentation, and, where relevant, the project accounting. The asset value was agreed to the invoice and no VAT<sup>5</sup> or other identifiable indirect taxes were charged. The depreciation method used to charge the equipment to the project was reconciled to the Beneficiary's normal accounting policy in this respect.</p> <p><b>If assets have been charged which do not comply with the above, they should be listed (together with the amounts) as exceptions in the main report.</b></p>
<p>8. Travel costs correctly identified and allocated to the project (and in line with Beneficiary's normal</p>	<p>The Auditor inspected the sample and observed that the contractor has a clear method for allocating travel costs to the project via marking of invoices and purchase orders, resulting</p>

<sup>5</sup> VAT is an ineligible cost unless the beneficiary can show that it is unable to recover it.



Procedures	Required factual finding
<p>policy for non-EC work regarding first-class travel, etc.) Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.</p> <p>The Beneficiary should provide written evidence of its normal policy for travel costs (e.g. use of first class tickets) to enable the Auditor to compare the travel charged with this policy.</p>	<p>in correct allocation in the project accounts.</p> <p>The costs charged were compared to the invoices and found to be correct. No VAT<sup>6</sup> or other identifiable indirect taxes were charged.</p> <p>The use of first class travel was in line with the written policy provided by the contractor.</p> <p><b>Costs which are not allocated to project accounts and do not have a clear attribution (normally by writing the project number on the original invoice) should be listed (together with the amounts) as exceptions in the main report.</b></p>
<p>9. Consumables correctly identified and allocated to the project. Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.</p>	<p>The Auditor inspected the sample and observed that the contractor has a clear method for allocating consumable costs to the project via marking of invoices and purchase orders, resulting in correct allocation in the project accounts.</p> <p>The costs charged were compared to the invoices and found to be correct. No VAT<sup>7</sup> or other identifiable indirect taxes were charged.</p> <p><b>Costs which are not allocated to project accounts and do not have a clear attribution (normally by writing the project number on the original invoice) should be listed (together with the amounts) as exceptions in the main report.</b></p>
<b>Indirect costs – to be assessed in case the Beneficiary uses actual indirect cost method</b>	
<p>10. Obtain and review a detailed breakdown of overheads (reconciled to the financial accounts) and confirm that the following costs are not present:</p> <ul style="list-style-type: none"> <li>–costs of capital employed,</li> <li>–provisions for possible future losses or charges,</li> <li>–interest owed,</li> <li>–exchange losses,</li> <li>–provisions for doubtful debts,</li> <li>–resources made available to a beneficiary free of charge,</li> <li>–value of contributions in</li> </ul>	<p>The Auditor obtained the total overhead amount which was allocated and reconciled this to the accounting records for the period in question.</p> <p>The Auditor recalculated the ratio of overheads [<i>choose one:</i> as a percentage of personnel costs/ as an hourly rate] and agreed it to the rate used in the financial statement.</p> <p>The Auditor obtained a detailed breakdown from the accounting system of the overheads which have been charged to the contract, and reconciled the individual amounts to the general ledger of the Beneficiary.</p> <p>The Auditor observed that costs for the non-project related activities of the Beneficiary, such as manufacturing, education, marketing of products or services, etc., had not been included in the calculation.</p>

<sup>6</sup> VAT is an ineligible cost unless the beneficiary can show that it is unable to recover it.

<sup>7</sup> VAT is an ineligible cost unless the beneficiary can show that it is unable to recover it.

Procedures	Required factual finding
<p>kind,</p> <ul style="list-style-type: none"> <li>–unnecessary or ill-considered expenses,</li> <li>–marketing, sales and distribution costs for products and services,</li> <li>–indirect taxes and duties, including VAT (unless the beneficiary can show that it is unable to recover it),</li> <li>–entertainment or hospitality expenses, except reasonable expenses accepted by the Commission as being absolutely necessary for carrying out the project,</li> <li>–any cost incurred or reimbursed in respect of, in particular, another Community, international or national project.</li> </ul>	<p>For each element of the breakdown, the Auditor inquired with the Beneficiary as to whether it contained one of the ineligible costs specified (typical examples are leasing costs, loan charges, provisions for doubtful debt (but not normal accruals), local business and property taxes, customs duties, exchange losses from billing in a foreign currency).</p> <p><b>Concerning the procedure to determine when a expenditure is an "ill considered expense" the Auditor is not expected to exercise professional judgement or provide assurance in this matter. He can rely on a written representation by the beneficiary as to the absence of unnecessary or ill considered expenses.</b></p> <p><b>The Commission defines an unnecessary or ill considered expense as paying significantly more for products, services, or personnel than the prevailing market rates, resulting in an avoidable financial loss/charge to the project, thus failing to exercise care in the selection of products, services and personnel.</b></p> <p><b>Amounts which do not meet the above criteria or where the Auditor is not provided with sufficient information in order to inspect and compare the types of cost should be listed (together with the amounts) as exceptions in the main report.</b></p>
<p>11. Inspect and compare exchange rates into Euros.</p> <p>The Beneficiary that keeps his accounting in euro should provide written evidence of its normal accounting practices for converting costs incurred in other currencies other than those in which accounts are kept.</p>	<p>The Auditor compared the exchange rates used for conversion. In case of a beneficiary with accounts in a currency other than the euro costs have been reported by using the conversion rate published by the European Central Bank and applicable on the first day following the end of the reporting period.</p> <ul style="list-style-type: none"> <li>• Beneficiaries whose accounts are kept in euro when declaring costs incurred in currencies other than euro have calculated an exchange rate in accordance with their normal accounting practices.</li> </ul> <p><b>Where rates cannot be agreed, an exception should be noted, (together with the amount) in the main report.</b></p>
<p>12. Identification of receipts The Beneficiary is obliged to declare in its claim any receipts related to the project (income from events, rebates from suppliers, etc.)</p>	<p>The Auditor examined the relevant project accounts and obtained representations from the Beneficiary concerning possible sources of income connected with the project. On the basis of this examination and the representations for the Beneficiary the amounts included in the claim regarding receipts correctly reflect the position in the project accounting.</p> <p><b>Any discrepancies in the receipts noted in the accounts and those reported by the Beneficiary should be noted (together with the amount) as exceptions in the main report.</b></p>
<p>13. Identification of interest yielded on pre-financing When the beneficiary is the coordinator of the project, it is obliged to declare interest yielded</p>	<p>The Auditor examined the relevant project accounts with the interest shown in the bank statements.</p> <p><b>Any discrepancies in the interest noted in the accounts and those reported by the Beneficiary should be noted (together with the amount) as exceptions in the main</b></p>

<b>Procedures</b>	<b>Required factual finding</b>
on pre-financing	<b>report.</b>