



## ANNEX IV

### Terms of Reference for an Expenditure Verification of a Grant Contract Kolarctic CBC Programme 2014-2020

The following are the terms of reference ('ToR') on which <name of the Beneficiary> 'the Lead Partner/the Partner' agrees to engage <name of the audit firm> 'the Auditor' to perform an expenditure verification concerning the project <name of the project and the ID number>.

Where in these ToR the 'Managing Authority' is mentioned this refers to the Regional Council of Lapland, which has signed the Grant Contract with the Lead Partner and is providing the grant funding. The Managing Authority is not a party to this agreement.

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

'The **Lead Partner**' refers to the organisation that has signed the Grant Contract with the Managing Authority and receives grant funding paid from the Managing Authority. 'The **Partner**' refers to the organisation which is committed to the project with the Partnership Statement and receives grant funding transferred by the Lead Partner or directly paid from the Managing Authority. With 'Beneficiary' is referred to both of them.

- '**The Beneficiary**' is responsible for providing a Financial Report for the project financed by the Grant Contract which complies with the terms and conditions of the Grant Contract and for ensuring that this 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 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 his partners, providing full and free access to the Beneficiary's staff and its accounting and bookkeeping system and underlying accounts and records.
- 'The **Auditor**' is responsible for performing the agreed-upon procedures as specified in these ToR, and for submitting a report of factual findings to the Beneficiary. 'Auditor' refers to the audit firm contracted for this engagement and in particular to the partner or other person in the audit firm who is responsible for the engagement and for the report that is issued on behalf of the firm, and who has the appropriate authority from a professional, legal or regulatory body.

By agreeing these ToR the Auditor confirms that he/she meets at least one of the following conditions:

- The Auditor and/or the firm is a member of a national accounting or auditing body or institution which in turn is member of the International Federation of Accountants (IFAC).

- The Auditor and/or the firm is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.
- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (this applies to auditors and audit firms based in an EU member state)<sup>1</sup>.
- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in a third country and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to auditors and audit firms based in a third country).

## 1.2 Subject of the Engagement

The subject of this engagement is the Financial Report in connection with the Grant Contract for the period covering

*<dd mm yyyy to dd mm yyyy>*

Annex 1 to these ToR contains information about the Grant Contract.

## 1.3 Reason for the Engagement

The Beneficiary is required to submit to the Managing Authority an expenditure verification report produced by an external auditor in support of the payment requested by the Beneficiary under Article 15 of the Conditions applicable to Grant Contract. 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.

## 1.4 Engagement Type and Objective

This expenditure verification is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Grant Contract. The objective of this expenditure verification is for the Auditor to carry out the specific procedures listed in Annex 2A to these ToR and to submit to the Beneficiary a report of factual findings with regard to the specific verification procedures performed. Verification means that the Auditor examines the factual information in the Financial Report of the Beneficiary and compares it with the terms and conditions of the Grant Contract and its annexes. As this engagement is not an assurance engagement the Auditor does not provide an audit opinion and expresses no assurance. The Managing Authority assesses for itself the factual findings reported by the Auditor and draws its own conclusions from these factual findings.

## 1.5 Standards and Ethics

The Auditor shall undertake this engagement in accordance with:

- the International Standard on Related Services ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;

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<sup>1</sup> Directive 2006/43 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.

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

## 1.6 Procedures, Evidence and Documentation

The Auditor plans the work so that an effective expenditure verification can be performed. The Auditor performs the procedures listed in Annex 2A of these ToR ('Listing of specific procedures to be performed') and applies the guidelines in Annex 2B (Guidelines for specific procedures to be performed). The evidence to be used for performing the procedures in Annex 2A is all financial and non-financial information which makes it possible to examine the expenditure claimed by the Beneficiary in the Financial Report. The Auditor uses the evidence obtained from these procedures as the basis for the report of factual findings. The Auditor documents matters which are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance with ISRS 4400 and these ToR.

## 1.7 Reporting

The report on this expenditure verification should describe the purpose, the agreed-upon procedures and the factual findings of the engagement in sufficient detail in order to enable the Beneficiary and the Managing Authority to understand the nature and extent of the procedures performed by the Auditor and the factual findings reported by the Auditor.

The use of the standard report template for an expenditure verification is compulsory. This report shall be provided by the Auditor to Beneficiary within <xx> working days after the day of signature of these ToR.

*NOTE from Managing Authority; The Standard report template will be published later (spring 2017)*

The beneficiary shall include the verification report in the interim and final financial reports submitted to the Managing Authority. Lead Partner must submit the interim report with annexes to the Managing Authority no later than three months after the expiration of the reporting period. The final report shall be submitted no later than four months after the end date of the Project

## 1.8 Other Terms

The fee for this engagement shall be <fee amount and currency>.

**Annex 1** information about the Grant Contract

**Annex 2A** Listing of specific procedures to be performed

**Annex 2B** Guidelines for specific procedures to be performed

**Annex 3** Model report for an expenditure verification of an EU grant contract  
(to be published later in 2017)

**For the Beneficiary:**

**For the Auditor:**

<name and title>

<name and title>

<date>

<date>

## Annex 1 Information about the Grant Contract

### To be completed only by the Auditor of the Lead Partner

| Information about the Grant Contract  |   |
|---|---|
| ID number and date of the Grant Contract                                      |   |
| Name of the project   |   |
| Country   |   |
| Name of the Lead Partner  |   |
| Name of the partners  |   |
| Start date of the Project   | <Grant contract Article 3.2>  |
| End date of the Project   | <Grant contract Article 3.2>  |
| Total cost of the Project including all partners                              | <Grant Contract Article 4.1>  |
| Maximum amount of the Grant including all partners                            | <Grant Contract Article 4.2>  |
| Total amount received to date by the Lead Partner from Managing Authority EUR |   |
| Total amount received to date by the Partners from Managing Authority EUR     | < to be filled if part of the grant is paid direct to the partners>       |
| Total amount of the payments to the partners EUR                              | < provide the total amount of the payments transferred to the Partners>   |
| Managing Authority  | Regional Council of Lapland, Hallituskatu 20 B, FI-96100 Rovaniemi        |
| Auditor   | < Name and address of the audit firm and names/positions of the auditors> |

## **Annex 2A Listing of Specific Procedures to be performed**

*This Annex is a standard listing of specific procedures to be performed and it shall not be modified*

Articles referred to in this Annex 2A are from the Grant Contract's Annex II Conditions applicable to Grant Contracts by the Kolarctic CBC Programme

### **1 General Procedures**

#### **1.1 Terms and Conditions of the Grant Contract**

The Auditor

- obtains an understanding of the terms and conditions of the Grant Contract by reviewing the Grant Contract and its annexes and other relevant information, and by inquiry of the Beneficiary;
- obtains a copy of the original Grant Contract with its annexes;
- obtains and reviews the Report (which includes a narrative and a financial section) as per Article 2.1.

#### **1.2 Financial Report for the Grant Contract**

The Auditor verifies that the Financial Report complies with the following conditions of Article 2:

- The Financial Report must conform to the standard model provided by the Managing Authority;
- The Financial Report should cover the eligible costs of the project as a whole, regardless of which part of it is financed by the Managing Authority;
- The Financial Report shall be drawn up in English;
- The proof of the transfers of ownership of equipment, vehicles and supplies (Article 7) shall be annexed to the final Financial Report.

#### **1.3 Rules for Accounting and Record keeping**

The Auditor examines – when performing the procedures listed in this Annex - whether the Beneficiary has complied with the following rules for accounting and record keeping of Article 16 of the Conditions applicable to Grant Contracts:

- The accounts kept by the Beneficiary for the implementation of the Project must be accurate and up-to-date;
- The Beneficiary must have a double-entry book-keeping system;
- The accounts and expenditure relating to the Project must be easily identifiable and verifiable;
- The accounts ~~must~~ shall provide details of interest accrued on funds paid by the ~~Contracting~~ Managing Authority.

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

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

## **1.5 Exchange Rates**

The Auditor verifies that the financial report for the Project is stated in EURO and in accordance with Article 15.8.

In the Financial report the conversion into Euro (from Roubles and Swedish and Norwegian Krona) shall be done at the rate indicated for the month during which the expenditure was incurred as published in InforEuro.

[http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/inforeuro/index\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm)

The Auditor verifies also that costs incurred in other currencies than the one used in the Beneficiary's bookkeeping accounts have been converted in accordance with the Beneficiary's usual accounting practices.

## **1.6 Consolidated financial report**

The Lead Partner is on a responsibility of the reporting procedures towards Managing Authority. In order to follow up the total costs of the project, the Lead Partner shall fill in the Consolidated financial report which includes expenditure of all partners from the reporting period in question.

Lead Partner's Auditor will verify that individual audit reports from the partners fulfil the formal requirements of the programme (standard templates used, at least 65% of the costs verified etc.) and are equal with the amounts reported in the Consolidated financial report.

## **2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review**

Articles referred to in this chapter are from the Grant Contract's Annex II Conditions applicable to Grant Contracts by the Kolarctic CBC Programme

### **2.1 Budget of the Grant Contract**

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

Lead Partner's Auditor verifies that the total budget in the Consolidated Financial Report (including expenditure of all partners) corresponds with the budget of the Grant Contract (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Contract.

Partner budgets are for informative use, Managing Authority follows the costs in country and project level.

### **2.2 Amendments to the Budget of the Grant Contract**

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

- requested an amendment to budget and obtained an addendum to the Grant Contract if such an addendum was required (Article 9.1).
- informed the Managing Authority about the amendment in case the amendment was limited (Article 9) and an addendum to the Grant Contract was not required.

## **3 Procedures to verify selected Expenditure**

### **3.1 Eligibility of Costs**

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

#### *(1) Costs actually incurred (Article 14.1)*

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 documents (e.g. invoices, contracts) and proof of payment. The Auditor also examines proof of work done, goods received or services rendered and he/she verifies the existence of assets if applicable.

#### *(2) Cut-off - Implementation period (Article 14.1a)*

The Auditor verifies that the expenditure for a selected item was incurred during the implementation period of the Project.

#### *(3) Budget (Article 14.1b)*

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

#### *(4) Necessary (Article 14.1c)*

The Auditor verifies whether it is plausible that the expenditure for a selected item was necessary for the implementation of the Project and that it had to be incurred for the contracted activities of the Project by examining the nature of the expenditure with supporting documents.

*(5) Records (Article 14.1d)*

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

*(6) Justified (Article 14.1e)*

The Auditor verifies that expenditure for a selected item is substantiated by evidence (see section 1 of Annex 2B, Guidelines for Specific Procedures to be performed) and notably the supporting documents as specified in Article 16.2 and 16.3 of the Conditions of the Grant Contract.

*(7) Valuation*

The Auditor verifies that the monetary value of a selected expenditure item agrees with underlying documents (e.g. invoices, salary statements) and that correct exchange rates are used where applicable.

*(8) Classification*

The Auditor examines the nature of the expenditure for a selected item and verifies that the expenditure item has been classified under the correct (sub)heading of the Financial Report.

*(9) Compliance with Procurement, Nationality and Origin Rules*

Where applicable the Auditor examines which procurement, nationality and origin rules apply for a certain expenditure (sub)heading, a class of expenditure items or an 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. Where the Auditor finds issues of non-compliance with procurement rules, he/she reports the nature of such events as well as their financial impact in terms of ineligible expenditure. When examining procurement documentation the Auditor takes into account the risk indicators listed in Annex 2B and he/she reports, if applicable, which of these indicators were found.

### **3.2 Eligibility of Direct Costs (Article 14.2)**

If the expenditure for a selected item is recorded under one of the direct costs headings 1 to 6 of the Financial Report, the Auditor verifies that this type of expenditure is covered by the direct costs as defined in Article 14.2 by examining the nature of the expenditure items concerned.

### **3.3 Indirect costs (max 7%) (Article 14.4)**

The Auditor verifies that the indirect costs to cover the administrative overheads (heading 8 of the Financial Report) do not exceed the percentage indicated in the Grant Contract. The percentage is calculated from the total amount of eligible direct costs of the Project

### **3.4 Contributions in kind (Article 14.5)**

The Auditor verifies that costs in the Financial Report do not include contributions in kind. Contributions in kind are not eligible costs.



### **3.5 Non-eligible costs (Article 14.5)**

The Auditor verifies that the expenditure for a selected item does not concern a non-eligible cost as described in Article 14.5 of the Conditions. The Auditor verifies 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.

### **3.6 Revenues of the Project**

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

## **Annex 2B Guidelines for Specific Procedures to be performed**

Articles referred to in this Annex 2B are from the Grant Contract's Annex II Conditions applicable to Grant Contracts by the Kolarctic CBC Programme

### **1 Verification Evidence**

When performing the specific procedures listed in Annex 2A the Auditor may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations.

The Auditor obtains verification evidence from these procedures to draw up his report of factual findings. Verification evidence is all information used by the Auditor in arriving at the factual findings and it includes the information contained in the accounting records underlying the Financial Report and other information (financial and non-financial).

The contractual requirements that relate to verification evidence are:

- Expenditure should be identifiable, verifiable and recorded in the accounting records of the Beneficiary (Article 14.1.d);
- Expenditure must be easily identifiable and verifiable and traced to and within the Beneficiary's accounting and bookkeeping systems (Article 16.1);
- The Beneficiary will allow any external 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 Project. The Beneficiary gives access to all documents and databases concerning the technical and financial management of the Project (Article 16.2);
- Article 16.3 provides a list of the types and nature of evidence that the Auditor will often find in expenditure verifications.

Moreover, for the purpose of the procedures listed in Annex 2A, evidence:

- Must be available in documentary form, whether paper, electronic or other medium (e.g. a written record of a meeting is more reliable than an oral presentation of the matters discussed);
- Must be available in the form of original documents rather than photocopies or facsimiles;
- Should preferably be obtained from independent sources outside the entity (an original suppliers invoice or contract is more reliable than an internally approved receipt note);
- Which is generated internally is more reliable if it has been subject to control and approval;
- Obtained directly by the Auditor (e.g. inspection of assets) is more reliable than evidence obtained indirectly (e.g. inquiry about the asset).

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

### **2 Obtaining an understanding of the terms and conditions of the Grant Contract (Annex 2A - procedure 1.1)**

The Auditor obtains an understanding of the terms and conditions of the Grant Contract and he/she should pay particular attention to its annexes. Failure to comply with these rules makes expenditure ineligible

If the Auditor finds that the terms and conditions to be verified are not sufficiently clear he should request clarification from the Beneficiary.

### **3 Selecting Expenditure for Verification (Annex 2A - procedures 3.1 – 3.7)**

The expenditure claimed by the Beneficiary in the Financial Report is presented under the following expenditure headings: *1 Personnel, 2 Travel, 3 Equipment and Purchases, 4 Office costs, 5 External services, sub-contracting, 6 Infrastructure investments and 8 Indirect costs*. Expenditure headings 1 to 6 represent direct costs of the Project. Expenditure headings can be broken down into expenditure subheadings such as for example *1.1 Salaries*.

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

The subheadings used in the Financial reports must be equal with those approved in the Project budget.

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

### **4 Verification Coverage of Expenditure (Annex 2A - procedures 3.1 – 3.7)**

The Auditor applies the principles and criteria set out below when planning and performing the specific verification procedures for selected expenditure in Annex 2A (procedures 3.1 – 3.7).

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

The Auditor may apply statistical sampling techniques for the verification of one or more expenditure headings or subheadings of the Financial Report. The Auditor examines whether ‘populations’ (i.e. expenditure subheadings or classes of expenditure items within expenditure subheadings) are suitable and sufficiently large (i.e. are made up of large numbers of items) for effective statistical sampling.

If applicable the Auditor should explain in the report of factual findings for which headings or subheadings of the Financial Report sampling has been applied, the method used, the results obtained and whether the sample is representative.

The Expenditure Coverage Ratio (‘ECR’) represents the total amount of expenditure verified by the Auditor expressed as a percentage of the total amount of expenditure reported and claimed by the Beneficiary in the Financial Report.

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

If the exception rate found is higher than 10% the Auditor extends verification procedures until the ECR is at least **85%**. The Auditor then finalises verification procedures and continues with reporting regardless of the total exception rate found.

The Auditor ensures that the **ECR for each expenditure heading and subheading** in the Financial Report is at least **10%**.

## **5 Procedures to verify selected Expenditure (Annex 2A - procedures 3.1 – 3.7)**

The Auditor verifies the selected expenditure items by carrying out procedures 3.1 - 3.7 listed in Annex 2A and reports all the factual findings and exceptions resulting from these procedures. Verification exceptions are all verification deviations found when performing the procedures set out in Annex 2A.

The Auditor quantifies the amount of the verification exception found and the potential impact on the EU contribution, should the Commission declare the expenditure item(s) concerned ineligible (where applicable taking into account the percentage of funding of the Commission and the impact on indirect expenditure (e.g. administrative costs)). The Auditor reports all exceptions found including the ones of which he cannot quantify the amount of the verification exception found.

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## RISK INDICATORS PROCUREMENT

- Inconsistencies in the dates of the documents or illogical sequence of dates. Examples:
    - Offer dated after the award of contract or before the sending of the invitations to tender
    - Offer of the winning tenderer dated before the publication date of the tender or dated significantly later than offers of other tenderers
    - Offers of different candidates participating in the same tenders all having the same date
    - Dates on documents not plausible/consistent with dates on accompanying documentation (e.g. date on the offer not plausible/consistent with the postal date on the envelope; date of an offer not plausible/consistent with the printed date of the e-mail )
  - Unusual similarities in offers of candidates participating in the same tender. Examples:
    - Same wording, sentences and terminology in offers of different tenderers
    - Same layout and format (e.g. font type, font size, margin sizes, indents, paragraph wrapping, etc) in offers of different tenderers
    - Similar letterhead paper or logos
    - Same prices used in offers of different tenderers for a number of subcomponents or line items
    - Identical grammatical, orthographical or typing errors in offers of different tenderers
    - Use of similar stamps and similarities in signatures
  - Financial statement or other information indicating that two tenderers participating in the same tender are related or part of a same group (e.g. where financial statements are provided, the notes to the financial statements may disclose ultimate ownership of the group. Ownership information may also be found in public registers for accounts)
  - Inconsistencies in the selection and award decision process. Examples:
    - Award decisions not plausible / consistent with selection and award criteria
    - Errors in the application of the selection and award criteria
    - A regular supplier of the beneficiary participates as a member of a tender evaluation committee
  - Other elements and examples indicating a risk of privileged relationship with tenderers:
    - A same tenderer (or small group of tenderers) is invited to different tenders with unusual frequency
    - A same tenderer (or small group of tenderers) wins an unusually high proportion of the bids
    - A tenderer is frequently awarded contracts for different types of goods or services
    - The winning tenderer invoices additional goods not foreseen in the offer (e.g. additional spare parts invoiced without clear justification, installation costs invoiced while not foreseen in the offer).
  - Other documentation, issues and examples indicating a risk of irregularities:
    - Use of photocopies instead of original documents
    - Use of pro-forma invoices as supporting documents instead of official invoices
    - Manual changes on original documents (e.g. figures manually changed, figures "tippexed", etc)
    - Use of non-official documents (e.g. letterhead paper not showing certain official and/or compulsory information such as commercial registry number, company tax number, etc.)
-