

TERMS OF REFERENCE FOR AN EXPENDITURE VERIFICATION OF A SERVICE CONTRACT (FEE-BASED) - EXTERNAL ACTIONS OF THE EUROPEAN UNION

How to complete these standard Terms of Reference: Please insert the information requested between the <> brackets, as appropriate for each tender procedure. Square brackets [] and parts shaded in grey indicate options to choose: they should be included when applicable. All other text should only need to be amended in exceptional cases, depending on the requirements of specific tender procedures. In the final version of each set of Terms of Reference, please remember to delete this paragraph, any other text with yellow highlighting, and to suppress all brackets.

The following are the terms of reference ('ToR') on which <name of the Contractor> 'the Contractor' 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 fee-based service contract for external actions concerning <title and number of the service contract> (the 'Service Contract'). Where in these ToR the 'Contracting Authority' is mentioned this refers to <the European Commission or name of another contracting authority> which has signed the Service Contract with the Contractor and finances the services. The Contracting Authority is not a party to this agreement.

1.1 Responsibilities of the Parties to the Engagement

'The **Contractor**' refers to the entity that is receiving the funds for the services and that has signed the Service Contract with the Contracting Authority.

- The Contractor is responsible for providing a Financial Report for the services financed by the Service Contract which complies with the terms and conditions of the Service Contract and for ensuring that this Financial Report can be reconciled to the Contractor's accounts and records in respect of these services. The Contractor is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.
- The Contractor accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Contractor providing full and free access to Contractor's staff and its 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 Contractor. '*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)¹.

¹ 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 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 Contractor's invoice dated <dd Month yyyy> and the [interim] [final] Financial Report in connection with the Service Contract for the period covering <dd Month yyyy to dd Month yyyy>. The activities performed by the Contractor under the Service Contract are [technical assistance] [studies] [training] and [designs] in accordance with the terms and conditions of the Service Contract. Annex 1 to these ToR contains information about the Service Contract.

1.3 Reason for the Engagement

The Contractor is required to submit to the Contracting Authority an expenditure verification report produced by an external auditor accompanied by the Contractor's invoice and in support of the payment requested by the Contractor under Article 29.1 of the General Conditions of the Service Contract. The Authorising Officer of the Commission requires this report as he makes the payment of the invoice and of the fees and expenditure claimed 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 Service Contract. The objective of this expenditure verification is for the Auditor to carry out the specific procedures listed in Annex 2A of these ToR and to submit to the Contractor 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 and the invoice of the Contractor and compares it with the terms and conditions of the Service Contract. As this engagement is not an assurance engagement the Auditor does not provide an audit opinion and expresses no assurance. The Contracting 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;
- with the IFAC *Code of Ethics for Professional Accountants* (developed and issued by 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 Contracting Authority requires that the Auditor is independent from the Contractor and complies with the independence requirements of the IFAC *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

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Contractor 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 Contractor and the Contracting 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 Model Report for an Expenditure Verification of an EC Service Contract (fee-based) in Annex 3 of these ToR is compulsory. This report should be provided by the Auditor to **<name of the Contractor>** within **<number of working days to be indicated by the Contractor>** working days after the day of signature of these ToR.

1.8 Other Terms

The fee for this engagement shall be **<fee amount and currency>** The Contractor may want to agree a fixed fee for the engagement or otherwise. The Contractor should specify any reimbursable expenses and allowances (e.g. travelling, other) agreed with the Auditor and whether VAT and/or other relevant taxes are included in the fees/expenses.

The Contractor and the Auditor can use this section to agree any other specific terms

Annex 1 Information about the Service 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 EC service contract (fee-based)

For the Contractor:

For the Auditor:

Signature

<name and capacity>

<date>

Signature

<name and capacity>

<date>

Annex 1 Information about the Service Contract

[Annex to be completed by the Contractor]

Information about the Service Contract	
Reference number and date of the Service Contract	<Contracting Authority's reference of the Contract>
Service contract title	
Country	
Contractor	<full name and address of the Contractor as per the Service Contract>
Legal basis for the Contract	
Start date of the Contract	
End date of the Contract	
Maximum Contract value	<amount in Art.(3) of the Special Conditions of the Service Contract>
Total amount of the invoice and invoice date	<provide the total amount as per the Contractor's invoice subject of this verification and the invoice date>
Total amount invoiced to the Contracting Authority to date	<provide the total amount invoiced by the Contractor, the number of invoices and the invoice dates and references>
Total amount received to date by the Contractor from Contracting Authority	<Total amount received as per dd.mm.yyyy>
Contracting Authority	[To be completed only if the Contracting Authority is not the Commission Provide the name, position/title, phone and E-mail of the contact person at the Contracting Authority.]
European Commission	<provide the name, position/title, phone and E-mail of the contact person in the Delegation of the Commission in the country concerned, or if applicable at Headquarters>
Auditor	<Name and address of the audit firm and names/positions of the auditors>

Annex 2A Listing of the specific procedures to be performed

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

1 General Procedures

1.1 Terms and Conditions of the Service Contract

The Auditor obtains an understanding of the terms and conditions of the Service Contract by reviewing the Service Contract and its annexes and other relevant information, and by inquiry of the Contractor. The Auditor obtains a copy of the original Service Contract (signed by the Contractor and the Contracting Authority) with its annexes. The Auditor obtains and reviews the Report (which includes a narrative and a financial section) as per Article 26.1 of the General Conditions.

1.2 Financial Report and Invoice for the Service Contract

The Auditor verifies that the Contractor's invoice and Financial Report comply with the following conditions of Article 26 of the General Conditions of the Service Contract:

- The format of the Financial Report should be as notified to the Contractor by the Project Manager during the period of implementation of the tasks (article. 26.1)
- All invoices for a fee-based contract must be accompanied by an up to date Financial Report. The structure of the interim or final Financial Report should be the same as that of the contractually approved budget (Annex V). The Financial Report should indicate, at a minimum, the expenditure of the reporting period, the cumulative expenditure and the balance available.

1.3 Rules for Accounting and Record keeping

The Auditor examines – when performing the procedures listed in Annex 2A - whether the Contractor has complied with the following rules for accounts and record keeping of Article 24 of the General Conditions of the Service Contract:

- The Contractor must keep full accurate and systematic records and accounts in accordance with the specific conditions of Article 24.1;
- The Contractor must keep timesheets in accordance with the specific conditions of Article 24.2.

1.4 Reconciling the Financial Report to the Contractor's Accounts and Records

The Auditor reconciles the information in the invoice and the Financial Report to the Contractor's accounts and records in respect of the services.

1.5 Exchange Rates

The Auditor verifies that amounts of fees and other expenditure incurred in a currency other than the Euro have been converted in accordance with the specific conditions of Article 29.5 of the General Conditions the Service Contract.

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

2.1 Budget of the Service Contract

The Auditor carries out an analytical review of the expenditure headings in the Financial Report and verifies that the budget in the Financial Report corresponds with the budget of the Service Contract (authenticity and authorisation of the initial budget) and that the fees and expenditure incurred were indicated in the budget of the Service Contract.

2.2 Amendments to the Budget of the Service Contract

The Auditor verifies whether there have been amendments to the budget of the Service Contract. Where this is the case the Auditor verifies that the conditions of Articles 20.1 and 20.2 of the General Conditions of the Service Contract were respected and that an addendum to the Service Contract (Article 20.1) or an Administrative Order (Article 20.2) exists.

3 Procedures to verify Fees and Expenditure

3.1 Eligibility of Fees

The Auditor verifies the eligibility of the fees with the terms and conditions of the Service Contract set out below.

3.1.1 Verification of time charged to the Service Contract

3.1.1.1 Timesheets for the Contractor's Personnel

The Auditor verifies that:

- (1) Time (number of days / hours worked) charged to the Service Contract for the Contractor's personnel (i.e. team leaders, senior and junior experts) corresponds to timesheets maintained by the Contractor in accordance with the criteria for records of (Article 24 of the General Conditions).
- (2) Timesheets were approved by the Project Manager or any person authorised by the Contracting Authority or by the Contracting Authority itself on a monthly basis (Article 24.2 of the General Conditions).
- (3) Timesheets cover time periods that fall within the implementation period of the Service Contract (Article 5 of the Special Conditions)
- (4) Time (number of days / hours worked) charged to the Service Contract for the Contractor's personnel has not already been charged in a previous Financial Report and invoice submitted by the Contractor for payment by the Contracting Authority.
- (5) Time charged to the Service Contract relates to the Contractor's personnel mentioned in the Budget for the Service Contract. The Auditor reviews variances between estimated time for the Contractor's personnel in the budget and actual time charged and obtains explanations from the Contractor for substantial variances. In cases of substantial overruns the Auditor verifies that such overruns have been properly authorised (Article 20 of the General Conditions).
- (6) The total number of days / hours on timesheets has been correctly calculated. For this purpose the Auditor may use a sample (e.g. recalculating (sub) totals for a number of the Contractor's personnel and for a number of months).

3.1.1.2 The Contractor's personnel is employed or contracted by the Contractor and approved by the Contracting Authority

The Auditor verifies that:

- (1) The Contractor's personnel (i.e. team leaders, senior and junior experts) for who time has been charged to the Service Contract was actually employed by the Contractor in the period covered by the timesheets. For this purpose the Auditor examines supporting evidence such as employment contracts. For personnel contracted by the Contractor (e.g. independent experts and free-lancers) the Auditor examines supporting evidence such as contracts. The Auditor also verifies that there is agreement by the Contracting Authority that contracted personnel (i.e. key experts and non-key experts) can work for the Service Contract. For this purpose the Auditor verifies that key experts are listed in Annex IV of the Service Contract (see point (3) below) and that appropriate evidence (i.e. administrative orders) exists for non-key experts (see point (4) below). The Auditor can examine supporting evidence on a sample basis (e.g. for a number of months).
- (2) The salaries and fees of the Contractor's personnel for who time has been charged to the Service Contract were actually incurred and paid by the Contractor in the period covered by the timesheets. For this purpose the Auditor examines payroll information (e.g. salary statements and pay slips) for staff employed by the Contractor. For personnel contracted by the Contractor (i.e. key experts and non-key experts) the Auditor examines supporting evidence relating to the charging of fees and payment (e.g. invoices and proof of payment). The Auditor can examine supporting evidence on a sample basis (e.g. for a number of months).
- (3) Key experts for who time has been charged to the contract are listed in Annex IV (key experts) of the Service Contract, that CVs are included in this Annex and that signed addendums to the Service Contract exist for key experts who have been replaced by other ones (Article 20 of the General Conditions).
- (4) The Contractor has informed the Contracting Authority of all experts other than key experts for who time has been charged to the Service Contract and that there is a written approval of the Project Manager for the appointment and replacement of these experts (Article 16 and 17 of the General Conditions).

3.1.1.3 The Contractor's personnel has carried out activities for the Service Contract

- (1) In addition to the procedures under 3.1.1.1 and 3.1.1.2 the Auditor obtains evidence, including where available independent, third-party evidence, that time charged for the Contractor's personnel (i.e. team leaders, senior and junior experts) pertains to Service Contract activities. Evidence includes but is not limited to:
 - Statements (written and oral) from the Project Manager and where available from EU Delegation Officials;
 - Monitoring and evaluation reports and memo's obtained from the EU Delegation;
 - Reports and documents drawn up by the Contractor and approved by the Contracting Authority (Article 27 of the General Conditions) as well as other activity reports and memo's produced by the Contractor and the Contractor's personnel;
 - Minutes and records of meetings of the Contractor and the Contractor's personnel with project staff, the Project Manager and EU Delegation staff;
 - Correspondence of the Contractor and the Contractor's personnel with project staff, the Project Manager and EU Delegation staff;

- Visas and work and residence permits issued by the partner country for the Contractor's personnel as well as proof of insurance cover (e.g. medical, liability) kept by the Contractor;
 - Reports and data compiled or prepared by the Contractor in the performance of the Service Contract as specified in Article 14 of the General Conditions;
 - Complaints and comments, if any, of project staff, Project Manager and EU Delegation staff with regard to the quality and quantity of the services performed by the Contractor;
 - Any other evidence which the Auditor considers appropriate.
- (2) The Auditor reports that evidence was obtained which makes it plausible that the time charged for the Contractor's personnel relates to Service Contract activities. In case the Auditor has not been able to obtain such evidence the reasons must be specified in the Auditor's report.

3.1.2 Verification of fee rates charged to the Service Contract

- (1) The Auditor verifies that the fee rates for the Contractor's personnel (i.e. team leaders, senior and junior experts) charged to the Service Contract are the ones indicated in the Service Contract budget (Annex V of the Special Conditions).
- (2) If the actual fee rate charged differs from the fee rate indicated in the budget the Auditor verifies whether the actual fee rate has been approved in accordance with the terms and conditions of the Service Contract (Article 20 of the General Conditions).

3.1.3 Verification of total fee costs charged to the Service Contract

(1) Value

- (a) The Auditor verifies that the total number of days / hours worked on timesheets for the Contractor's personnel (i.e. team leaders, senior and junior experts) multiplied by actual fee rates corresponds with the total fee cost charged to the Service Contract in the Financial Report and on the invoice (Article 29.6 General Conditions).
- (b) The Auditor verifies, where applicable, whether the correct exchange rates have been used in accordance with the terms and conditions of the Service Contract in order to calculate the total fee cost for the Contractor's personnel (Article 29.5 General Conditions).

(2) Classification

The Auditor verifies that total fee costs for the Contractor's personnel are classified in the Financial Report in accordance with the underlying timesheets and other evidence.

3.2 Eligibility of Incidental Expenditure

The Auditor verifies the eligibility of incidental expenditure claimed with the terms and conditions of the Contract.

3.2.1 Verification of Incidental Expenditure –Verification Procedures and Criteria

(1) Incidental expenditure actually incurred (General Conditions Article 28.3)

The Auditor verifies that incidental expenditure was actually incurred by and pertains to the Contractor. For this purpose the Auditor examines supporting documents (e.g. invoices) 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 where applicable.

(2) Cut-off - Implementation period (Article 5 of the Special Conditions)

The Auditor verifies that incidental expenditure was incurred during the implementation period of the Service Contract and that it had not already been charged in a previous Financial Report and invoice submitted by the Contractor for payment by the Contracting Authority.

(3) Budget (Special Conditions Annex V)

The Auditor verifies that incidental expenditure was indicated in the Service Contract budget.

(4) Covered by fee-rates (General Conditions Article 28.3)

The Auditor verifies that incidental expenditure (including costs of office accommodation) is not already covered or supposed to be covered in the fee-rates for the Contractor's personnel (i.e. team leaders, senior and junior experts) and personnel other than experts. For this purpose the Auditor reviews the conditions in Section 6.1, 6.2 and 6.5 of the terms of reference for the Service Contract (Annex II of the Service Contract).

(5) Necessary (General Conditions Article 28.3)

The Auditor verifies whether it is plausible that incidental expenditure was necessary for the implementation of the Service Contract and that it had to be incurred for the Service Contract activities by examining the nature of the expenditure with supporting documents.

(6) Records (General Conditions Article 24.1)

The Auditor verifies that incidental expenditure is recorded in Contractor's accounts and 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 24.1 and 24.2 of the General Conditions of the Service Contract.

(7) Valuation

The Auditor verifies that the monetary value of incidental expenditure agrees with underlying documents (e.g. invoices, salary statements) and that correct exchange rates are used where applicable. All incidental expenditure incurred should be declared and invoiced at actual cost. This is explicitly stipulated in Annex V (Budget) of a fee-based service contract).

(8) Classification

The Auditor examines the nature of the costs and verifies that these costs have been classified as incidental expenditure in the Financial Report.

3.2.2 Verification of Incidental Expenditure - Specific Verification Procedures for Per Diems

The Auditor verifies the eligibility of the total amounts of subsistence i.e. per diems declared in the Financial Report for the Contractor's personnel (i.e. team leaders, senior and junior experts) who have performed missions requiring at least 12 hours away from their normal place of posting with the terms and conditions of the Service Contract and the rules set out in Annex V (Budget) of the Service Contract. More specifically the Auditor verifies that the subsistence i.e. per diem amounts declared in the Financial Report and included in the Contractor's invoice:

- (1) Correspond to actual cost/per diems paid/reimbursed by the Contractor to personnel contracted or employed by the Contractor;
- (2) For each 24 hours period do not exceed the maximum amount which is contractually allowed i.e. the flat rates / per diem rates published at: http://ec.europa.eu/europeaid/funding/about-calls-tender/procedures-and-practical-guide-prag/diems_en

(For each period of 12 hours mission, the expert is entitled to receive 50% of the flat rate amount);

- (3) Relate to missions which were required for and foreseen in the Service Contract; and
- (4) Relate to the total number of days actually performed for these missions.

Annex 2B Guidelines for Specific Procedures to be performed

[This Annex provides standard guidelines for the specific procedures to be performed and these guidelines shall not be modified]

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:

- The Contractor shall keep full accurate and systematic records and accounts in respect of the services in such form and detail as is sufficient to establish accurately that the number of working days and the actual incidental expenditure identified in the Contractor's invoice(s) have been duly incurred for the performance of the services (Article 24.1 of the General Conditions of the Service Contract);
- Timesheets must be maintained and approved (Article 24.2 of the General Conditions);
- The Contractor will allow the verification of original documents, supporting documents for the accounts, accounting documents and any other document relevant to the financing of the project (Article 25.1 General Conditions);
- The Contractor will give appropriate access to its information systems, as well as all documents and databases concerning the technical and financial management of the project. Documents must be easily accessible and filed so as to facilitate their examination (Article 25.2 General Conditions);
- All reports and data such as maps, diagrams, drawings, specifications, plans, statistics, calculations, databases, software and supporting records or materials acquired, compiled or prepared by the Contractor in the performance of the Contract shall be the absolute property of the Contracting Authority unless otherwise specified (Article 14.1 of the General Conditions).

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

- Shall be available in the original form or in the form of copies (as set out in the PRAG) including in electronic form.

Guidance: records and accounting and supporting documents should 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). Electronic documents can be accepted only where:

- the documentation was first received or created (e.g. an order form or confirmation) by the Contractor(s) in electronic form; or
- the Auditor is satisfied that the Contractor uses an electronic archiving system which meets established standards (e.g. a certified system which complies with national law).

- 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 Contract (Annex 2A - procedure 1.1)

The Auditor obtains an understanding of the terms and conditions of the Service Contract and of Annex II of the Service Contract, which contains the Terms of Reference for the Contractor. Moreover, the Auditor pays special attention to the rules for subcontracting as set out in Article 4 of the General Conditions of the Service Contract.

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

3 Verification of Fees and Expenditure (Annex 2A - procedures 3.1 and 3.2)

The fees and expenditure claimed by the Contractor in the Financial Report are presented under the following headings: Fees (including overheads) and Incidental Expenditure. These headings may be broken down into subheadings.

Fees and expenditure subheadings can be broken down into individual fee and expenditure items or classes of expenditure items with the same or similar characteristics. The form and nature of the supporting evidence (e.g. a timesheet, a contract, an invoice etc) and the way fees and expenditure are recorded (e.g. computerised time recording, journal entries) vary with the type and nature of the fees and expenditure and the underlying actions or transactions. However, in all cases fees claimed must relate to the fee rates agreed in the Budget and the time worked as attested to by the timesheets as required by Article 24.2 of the General Conditions. Expenditure items should in all cases reflect the accounting (or financial) value of underlying actions or transactions no matter the type and nature of the action or transaction concerned.

4 Verification Coverage of Fees and Expenditure (Annex 2A - procedures 3.1 and 3.2)

The Auditor must carry out a **complete** and **exhaustive** verification of all the fees and all expenditure claimed on the invoice and in the Financial Report.

5 Procedures to verify Fees and Expenditure (Annex 2A - procedures 3.1 and 3.3)

The Auditor verifies the fees and the expenditure by carrying out procedures 3.1 and 3.3 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 EC contribution, should the Commission declare the fee or expenditure item(s) concerned ineligible. The Auditor reports all exceptions found including the ones of which he cannot quantify the amount of

the verification exception found and the potential impact on the EC contribution. The Auditor reports all exceptions found including the ones of which he cannot measure the financial impact.

For example: the Auditor finds that an amount of 1.000€ relating to expert fees is not supported by the hours worked on the timesheets.

Annex 3 Model Report for an Expenditure Verification of an EC Service Contract (fee-based)

HOW TO USE THIS MODEL REPORT? All text highlighted in yellow in this model report is for instruction only and auditors should remove it after use. Information requested in the following form <.....> (e.g. <name of the contractor> must be completed by the auditor.

<To be printed on AUDITOR'S letterhead>

Report for an Expenditure Verification of a Service Contract (fee-based) - External Actions of the European Union

<Title of and number of the service contract >

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1 Report of Factual Findings

< Name of contact person[s] >, Position>

< **Contractor's name** >

<Address>

<dd Month yyyy>

Dear < Name of contact person[s] >

In accordance with the terms of reference dated <dd Month yyyy> that you agreed with us, we provide our Report of Factual Findings ("the Report"), with respect to the accompanying Financial Report and invoice for the period covering < dd Month yyyy - dd Month yyyy> (Annexes 1 and 2 of this report). You requested certain procedures to be carried out in connection with your Financial Report and the invoice and the European Union financed Service Contract concerning <title and number of the contract>, the 'Service Contract'.

Objective

Our engagement was an expenditure verification which is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Service Contract between you and <the European Commission or the name of another contracting authority> the 'Contracting Authority'. The

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objective of this expenditure verification is for us to carry out certain procedures to which we have agreed and to submit to you a report of factual findings with regard to the procedures performed.

Standards and Ethics

Our engagement was undertaken in accordance with:

- 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 Contracting Authority requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

Procedures performed

As requested, we have only performed the procedures listed in Annex 2A of the terms of reference for this engagement (see Annex 2 of this Report).

These procedures have been determined solely by the Contracting Authority and the procedures were performed solely to assist the Contracting Authority in evaluating whether the fees and expenditure claimed by you on the invoice and in the Financial Report are eligible in accordance with the terms and conditions of the Service Contract.

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

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Contractor 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 you in response to specific questions or as obtained and extracted from your accounts and records.

Factual Findings

The total expenditure which is the subject of this expenditure verification amounts to [EUR] [<ISO code of national currency> only for indirect management] <amount>. This amount corresponds to the total amount of fees and expenditure claimed on your invoice and your Financial Report. We have carried out a complete and exhaustive verification of the fees and expenditure claimed on the invoice and in the Financial Report.

We report the details of our factual findings which result from the procedures that we performed in Chapter 2 of this Report.

Use of this Report

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

This report is prepared solely for your own confidential use and solely for the purpose of submission by you to the Contracting Authority in connection with the requirements as set out in Article 29 of the

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EuropeAid/137974/DH/SER/RS (14SER01/36/81)

General Conditions of the Contract. This report may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

The Contracting Authority is not a party to the agreement (the terms of reference) between you and us and therefore we do not owe or assume a duty of care to the Contracting Authority who may rely upon this expenditure verification report at its own risk and discretion. The Contracting Authority can assess for itself the procedures and findings reported by us and draw its own conclusions from the factual findings reported by us.

The Contracting Authority may only disclose this Report to others who have regulatory rights of access to it in particular [the European Commission (Delete if the Commission is the Contracting Authority)], the European Anti Fraud Office and the European Court of Auditors.

This Report relates only to the Financial Report specified above and does not extend to any of your financial statements.

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

Auditors' signature (person or firm or both, as appropriate and in accordance with firm policies)

<Name of Auditor signing (person or firm or both, as appropriate)>

<Auditors' address (office having responsibility for the engagement)>

Date of signature <dd Month yyyy - date of when the final report is effectively signed>

2 Information about the Service Contract

Chapter 1 should include a brief description of the Service Contract and the Contractor's activities. (maximum 1 page)

3 Procedures performed and Factual Findings

We have performed the specific procedures listed in Annex 2A of the terms of reference for the expenditure verification of the Service Contract. These procedures are:

- 1 General Procedures
- 2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review
- 3 Procedures to verify Fees and Expenditure

We have applied the principles and criteria for the verification of expenditure as set out in Annex 2B (sections 3 and 4) of the ToR for this expenditure verification.

<Explain here difficulties or problems encountered if any>

The total expenditure verified by us amounts to [EUR] [<ISO code of national currency> only for indirect management] <amount> and is summarised in the table below.

<Provide here a summary table of the Financial Report in Annex 1 presenting for each (sub) heading the total fee and expenditure amount reported by the Contractor>

We have verified the fees and expenditure as shown in the above summary table. For this purpose we have carried out the verification procedures specified at point 3.1 and 3.2 of Annex 2A of the ToR for this expenditure verification. We report our factual findings resulting from these procedures below.

1 General Procedures

1.1 Terms and Conditions of the Service Contract

We have obtained an understanding of the terms and conditions of this Service Contract in accordance with the guidelines in Annex 2B (point 2) of the ToR for this expenditure verification.

<Describe the factual findings that have arisen from procedures 1.1- 1.5 in Annex 2A. If there are no factual findings this should be explicitly stated as follows for each procedure: 'No factual findings have arisen from this procedure'.>

1.2 Financial Report and Invoice for the Service Contract

1.3 Rules for Accounting and Record keeping

1.4 Reconciling the Financial Report to the Contractor's Accounts and Records

1.5 Exchange Rates

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

2.1 Budget of the Service Contract

2.2 Amendments to the Budget of the Service Contract

<Describe factual findings and specify errors and exceptions that have arisen from **procedures 2.1 – 2.2 in Annex 2A. If there are no factual findings this should be explicitly stated as follows for each procedure:** 'No factual findings have arisen from this procedure'>

3 Procedures to verify Fees and Expenditure

We have reported further below all the exceptions resulting from the verification procedures specified at point 3.1 and 3.2 of Annex 2A of the ToR for this expenditure verification insofar these procedures did apply to the verification of fees and expenditure.

We have quantified the amount of the verification exceptions found and the potential impact on the EC contribution, should the Commission declare the fee or expenditure item(s) concerned ineligible. We have reported all exceptions found including the ones of which we cannot quantify the amount of the verification exception found and the potential impact on the EC contribution.

<Specify for which fees and expenditure amounts / items exceptions between facts and criteria were found, the nature of the exception – this means which of the specific condition or conditions described at point 3.1 and 3.2 of Annex 2A of the ToR were not respected. Quantify the amounts of verification exceptions found and the potential impact on the EC contribution, should the Commission declare the expenditure item(s) concerned ineligible>

3.1 Eligibility of Fees claimed

We have verified the eligibility of fees claimed with the terms and conditions of the Service Contract. We have performed procedures 3.1.1 (verification of time charged to the Service Contract), 3.1.2 (verification of fee rates charged to the Service Contract) and 3.1.3 (verification of total fee costs charged to the Service Contract) as specified in Annex 2A of the ToR for this expenditure verification.

<Describe factual findings and specify errors and exceptions. **Procedures 3.1.1 - 3.1.3 in Annex 2A.** **Example:** we found that total expenditure for an amount of 7.000€ related to senior expert fees in the Financial Report was not eligible. An amount of 5.000€ for expert fees was not supported by timesheets and 2.500€ related to a timesheet for a period outside the implementation period of the service contract. (Note: relevant details such as timesheet references or documents should be provided)>

3.2 Eligibility of Incidental Expenditure

We have verified the eligibility of incidental expenditure with the terms and conditions of the Service Contract. We have performed procedures 3.2.1 (and 3.2.2 (eligibility of incidental expenditure) in Annex 2A.

<Describe factual findings and specify details of errors and exceptions. **Procedure 3.2.1** (verification of Incidental Expenditure – Verification Procedures and Criteria) **and 3.2.2** (verification of Incidental Expenditure - Specific Verification Procedures for Per Diems) **in Annex 2A**>

Annex 1 Financial Report for the Service Contract

Annex 1 should include the Contractor's financial report for the Service Contract which has been the subject of the verification. The financial report should be **dated** and indicate the **period covered**

Annex 2 Invoice of the Contractor

Annex 2 should include a copy of the **invoice** of the Contractor

Annex 3 Terms of Reference Expenditure Verification

Annex 3 should include a **signed** and **dated** copy of the terms of reference for the expenditure verification of this Service Contract including **Annex 1** (information about the Service Contract) and **Annex 2A** (Listing of the specific procedures to be performed).