

ANNEX VII

Expenditure Verification

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Point 1 should be completed by the Consultant and be agreed with the Auditor

Point 2 should be provided by the Auditor

1. Terms of Reference for an Expenditure Verification of a Service Contract (fee-based) for European Community External Actions

The following are the terms of reference ('ToR') on which *<name of the Consultant>* 'the Consultant' agrees to engage *<name of the audit firm>* 'the Auditor' to perform an expenditure verification and to report in connection with a European Community financed fee-based service contract for external actions concerning *<title and number of the service contract>* (the '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 Contract with the Consultant and finances the services. The Contracting Authority is not a party to this engagement.

1.1 Responsibilities of the Parties to the Engagement

'The Consultant' refers to the entity that provides the services and that has signed the Contract with the Contracting Authority.

- The Consultant is responsible for providing a Financial Report for the services financed by the Contract and for ensuring that this Financial Report can be properly reconciled to the Consultant's records and accounts in respect of these services.
- The Consultant accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Consultant providing full and free access to its staff and records and accounts.

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

- *[Option 1: delete if not applicable]* The Auditor is a member of *<specify the name of the national accounting or auditing body or institution of which the Auditor is a member>* which in turn is a member of the International Federation of Accountants (IFAC).
- *[Option 2: delete if not applicable]* The Auditor is a member of *<specify the name of the national accounting or auditing body or institution of which the auditor is a member>*. Although this organisation is not member of the IFAC, the Auditor commits himself to undertake this engagement in accordance with applicable IFAC standards and ethics.

1.2 Subject of the Engagement

The subject of this engagement is the Consultant's invoice dated *<dd Month yyyy>* and the *<interim or final; delete what is not applicable>* Financial Report in connection with the Contract for the period covering *<dd Month yyyy to dd Month yyyy>*. The activities to be performed by the Consultant under the Contract are *<technical assistance, studies, training, and designs; delete what is not applicable>* in accordance with the terms and conditions of the Contract. The information, both financial and non-financial, which is subject to verification by the Auditor, is all information which makes it possible to verify that the expenditure and fees claimed by the Consultant in the invoice and the Financial Report have occurred, and are accurate and eligible. Annex 1 to these ToR contains an overview of key information about the Contract and the services concerned.

1.3 Reason for the Engagement

The Consultant is required to submit to the Contracting Authority an expenditure verification report produced by an external auditor accompanied by the Consultant's invoice and in support of the payment requested by the Consultant under Article 29.1 of the General Conditions of the Contract. The Authorising Officer of the Commission requires this report as he makes the payment of the invoice and the expenditure and fees claimed thereon 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 expenditure verification of a European Community financed service contract for external actions. The objective of this expenditure verification is for the Auditor to verify that the expenditure and fees claimed by the Consultant on the invoice and in the Financial Report for the services covered by the Contract have occurred ('reality'), are accurate ('exact') and eligible and to submit to the Consultant a report of factual findings with regard to the agreed-upon procedures performed. Eligibility means that expenditure and fees have been incurred in accordance with the terms and conditions of the Contract.

As this engagement is not an assurance engagement the Auditor does not provide an audit opinion and expresses no assurance. The Contracting Authority derives its assurance by drawing its own conclusions from the factual findings reported by the Auditor on the Consultant's invoice and the Financial Report.

1.5 Scope of Work

1.5.1 The Auditor shall undertake this engagement in accordance with these ToR and:

- in accordance with the International Standard on Related Services ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
- in compliance with the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants.

1.5.2 The Terms and Conditions of the Service Contract

The Auditor verifies that the funds provided by the Contract were spent in accordance with the terms and conditions of the Contract and in particular Article (2) of the Special Conditions of the Contract.

1.5.3 Planning, procedures, documentation and evidence

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

1.6 Reporting

The report on this expenditure verification should describe the purpose and the agreed-upon procedures of the engagement in sufficient detail in order to enable the Consultant and the Contracting Authority to understand the nature and extent of the procedures performed by the Auditor. Use of the reporting format attached as Annex VII of the Special Conditions is compulsory.

1.7 Other Terms

[The Consultant and the Auditor can use this section to agree other specific terms such as Auditor's fees, out of pocket expenses and liability provisions]

Annex 1: Information about the Subject of the Expenditure Verification

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

Information about the Subject of the Expenditure Verification	
Reference number and date of the Contract	<Contracting Authority's reference of the Contract>
Service contract title	
Country	
Consultant	<full name and address of the Consultant as per the Contract>
Budget line Contract	<Contracting Authority reference of the budget line and Commission reference where the Contracting Authority is not the European Commission>
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 Contract>
Total amount of the invoice and invoice date	<provide the total amount as per the Consultant'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 Consultant, the number of invoices and the invoice dates and references>
Total amount received to date by the Consultant from Contracting Authority	<Total amount received as per dd.mm.yyyy>
Contracting Authority	[Provide the name, position/title, phone and E-mail of the contact person at the Contracting Authority. Only to be completed if the Contracting Authority is not the Commission.]
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 2: Scope of Work – Procedures to be performed

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

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

The General Conditions of the Contract (‘General Conditions’) and notably Article 24 (‘Records’) thereof provides information about the records the Consultant shall keep and the types and nature of evidence that the Auditor may often find in expenditure verifications. This may vary depending on the nature of the fees and expenditure and the practices in the country concerned. Moreover, Article 14.1 (‘Intellectual and industrial property rights’) provides guidance as to the type and nature of ‘products’ that the Consultant may have to deliver (for example: plans).

1 Obtaining a sufficient Understanding of the Consultant’s Activities and of the Terms and Conditions of the Service Contract

The Auditor obtains a sufficient understanding of the terms and conditions of the Contract by reviewing the Contract and its annexes and other relevant information, and by inquiry of the Consultant. The Auditor ensures that he obtains a copy of the original Contract with its annexes (signed by the Consultant and the Contracting Authority). The Auditor obtains and reviews copies of the <interim/final> Progress Report (as per Article 26.1 of the General Conditions of the Contract and Annex VI of the Contract).

The Auditor reviews in particular Annex II of the Contract, which contains the Terms of Reference for the Consultant. Moreover, the Auditor pays special attention to the rules for subcontracting as set out in Article 4 of the General Conditions of the Contract.

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

2 Procedures to verify the Eligibility of the Fees and Expenditure Claimed by the Consultant on the Invoice for the Services and in the Financial Report

2.1 General Procedures

2.1.1 The Auditor verifies that the Consultant’s invoice and Financial Report comply with the conditions of the Contract notably Article 26 of the General Conditions (including format and language).

2.1.2 The Auditor examines whether the Consultant has complied with the rules for record keeping and accounts of the Contract notably with Article 24 of the General Conditions. The purpose of this is:

- To assess whether an efficient and effective expenditure verification of the Consultant’s invoice and the Financial Report is feasible; and

- To report important exceptions and weaknesses with regard to accounting, record keeping and documentation requirements so that the Consultant can undertake follow-up measures for correction and improvement for the remaining period of the Contract.

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

2.1.4 The Auditor verifies that the correct exchange rates have been applied for currency conversions where applicable and in accordance with the conditions of the Contract notably Article 29.5 of the General Conditions.

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

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 Contract (authenticity and authorisation of the initial Budget) and that the fees and expenditure incurred were foreseen in the budget of the Contract.
- verifies that the total amount invoiced by the Consultant does not exceed the maximum contract value laid down in Article (3) of the Special Conditions of the Contract.
- verifies that any amendments to the Budget of the Contract comply with the conditions for such amendments as set out in Article 20 of the General Conditions.

2.3 Verification Procedures

The fees and expenditure claimed by the Consultant in the Financial Report are presented under the following headings: Fees (including overheads), Incidental Expenditure and Costs of the Expenditure Verification. 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 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.

2.3.1 Verification Coverage

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.

2.3.2 Verification of Fees and Expenditure (incidental expenditure and costs of the expenditure verification)

The Auditor verifies the fees and the expenditure and reports all the exceptions resulting from this verification. Verification exceptions are all verification deviations found when performing the procedures set out in this Annex. In all cases the Auditor assesses the (estimated) financial impact of exceptions in terms of ineligible expenditure. For example: if the Auditor finds an exception with regard to the personnel used by the Contractor in implementing the Contract, he assesses to which extent this exception has led to ineligible expenditure. The Auditor reports all exceptions found including the ones of which he cannot measure the financial impact.

2.3.3 Eligibility of Fees claimed

The Auditor verifies the eligibility of fees claimed with the terms and conditions of the Contract and notably by referring to Article 24.2 of the General Conditions and Section 6.1 of the Terms of Reference for the Contract examining whether the fees claimed:

- were necessary for providing the services. In other words the Auditor verifies that the time spent by the Consultant's personnel and for which fees are charged has been spent for the intended purpose of the Contract;
- correspond to timesheets maintained by the Consultant in accordance with Article 24.2 of the General Conditions.
- correspond to time actually spent working on the Contract during the implementation period of the Contract as defined in Article 5 of the Special Conditions;

Where the Consultant has entrusted performance of a part of the Contract to a third party, the Auditor verifies whether the Consultant has complied with the terms and conditions for subcontracting (Article 4 of the General Conditions of the Contract).

2.3.4 Eligibility of Expenditure

The Auditor verifies the eligibility of expenditure with the terms and conditions of the Contract and notably by referring to the Terms of Reference (Section 6.5 of Annex II of the Contract) and by examining whether these costs:

- are necessary for providing the services. In other words the Auditor verifies that expenditure for a transaction or action has been incurred for the intended purpose of the Contract. The Auditor further verifies that the incidental costs are provided for in the Contract Budget;
- have actually been incurred by the Consultant during the implementation period of the Contract as defined in Article 5 of the Special Conditions;
- are recorded in Consultant's accounts and are identifiable, verifiable and substantiated by originals of supporting evidence.

2.3.5 Accuracy and Recording

The Auditor verifies that time spent in relation to fees claimed has been properly recorded in the Consultant's timesheets, and that expenditure for a transaction or action has been accurately and properly recorded in the Consultant's accounts. The Consultant's records and accounts must be supported by appropriate evidence and supporting documents. This includes proper valuation and the use of correct exchange rates. The Auditor verifies that fees and expenditure claimed in the period covered by the Financial Report and invoice have not been previously claimed by the Consultant, i.e. that cut-off procedures have been properly applied.

2.3.6 Classification

The Auditor verifies that fees and expenditure for a transaction or action have been classified under the correct heading and subheading of the Financial Report.

2.3.7 Reality (occurrence / existence)

The Auditor exercises professional judgment to obtain sufficient appropriate verification evidence with regard to the reality and quality of the fees claimed and the time spent, and of the expenditure. The Auditor examines the nature of the services to be provided by the Contract (Article 15 of the General Conditions of the Contract). Depending on the Consultant's activities (i.e. technical assistances, studies, training and designs) the Auditor determines the most appropriate type of evidence to verify the reality of fees and expenditure.

Any reports and documents already forwarded by the Consultant to the Contracting Authority and duly approved by the Contracting Authority may be considered compliant with the terms of the Contract.

The Auditor may also find substantiation of the time claimed in the timesheets in the reports and data such as set out in Article 14.1 of the General Conditions of the Contract.

Where possible the Auditor verifies the reality and quality of the fees claimed by obtaining independent, third party evidence substantiating the time claimed in the timesheets.

The Auditor verifies the reality and quality of the expenditure claimed by examining proof of work done, goods received or services rendered on a timely basis, at acceptable and agreed quality and at reasonable prices or costs. The Auditor verifies the existence of assets where applicable.

2. Report of Factual Findings for an Expenditure Verification of a Service Contract (fee-based) for European Community External Actions

To be printed on letterhead paper of the Auditor

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

< *Consultant's name* >

<Address>

<dd Month yyyy>

Dear < Name of contact person(s) >

In accordance with our contract dated <dd Month yyyy> with <name of the Consultant> 'the Consultant' and the terms of reference attached thereto (Annex 1 of this report), we provide our Report of Factual Findings ("the Report"), with respect to the accompanying Financial Report and invoice you provided for the period covering < dd Month yyyy - dd Month yyyy> (Annexes 2 and 3 of this report). You requested certain procedures to be carried out in connection with the Service Contract concerning [title and number of the contract], the 'Contract'. The Report consists of this letter and the Report details set out in Chapters 1 and 2.

Objective

Our engagement was an engagement to perform agreed-upon procedures regarding the expenditure verification of the service contract between you and < the European Commission or the name of another contracting authority> the 'Contracting Authority' concerning [title and number of the contract], the 'Contract'. It involved performing certain specified procedures, the results of which the Contracting Authority uses to draw conclusions from the procedures performed by us.

The objective of this expenditure verification is for the Auditor to verify that the fees and expenditure claimed by the Consultant on the invoice and in the Financial Report for the services covered by the Contract have occurred ('reality'), are accurate ('exact') and eligible and to submit to the Consultant a report of factual findings with regard to the agreed-upon procedures performed. Eligibility means that expenditure and fees have been incurred in accordance with the terms and conditions of the Contract.

Scope of Work

Our engagement was undertaken in accordance with:

- the terms of reference in Annex 1 to this Report and:
- International Standard on Related Services ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the International Federation of Accountants ('IFAC');
- the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants.

As requested, we have only performed the procedures set out in the terms of reference for this engagement and we have reported our factual findings on those procedures in Chapter 2 of this Report.

The scope of these agreed upon procedures has 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 the Consultant on the invoice and in the Financial Report has occurred ('reality'), is accurate ('exact') and eligible.

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

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Consultant 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 Consultant in response to specific questions or as obtained and extracted from the Consultant's records and accounts. In addition we received verbal representations from the Consultant, which we did not obtain in writing [delete if received in written form.]

Factual Findings

The total expenditure which is the subject of this expenditure verification amounts to <xxxxxx>€ This amount corresponds to the total amount of fees and expenditure claimed on the Consultant's invoice and the 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.

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

Use of this Report

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

This report is prepared solely for the confidential use of the Consultant and the Contracting Authority and solely for the purpose of submission to the Contracting Authority in connection with the requirements as set out in Article 29 of the General Conditions of the Contract. This report may not be relied upon by the Consultant or by the Contracting Authority for any other purpose, nor may it be distributed to any other parties. 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 financial statements of the Beneficiary.

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

Yours sincerely

<dd Month yyyy>

<Name of the Auditor>

Report Details

Chapter 1 Information about the Service Contract and the Consultant's Activities

[Chapter 1 should include a brief description of the Contract and the Consultant's activities. The Auditor should also present here the table with 'Information about the subject of the Expenditure Verification' as attached by the Consultant to the ToR.]

Chapter 2 Procedures Performed and Factual Findings

We have performed the procedures as agreed upon in the terms of reference for an expenditure verification of the Contract concerning *<title and number of the contract>* (see Annex 1). The factual findings of these procedures are set out under the headings below.

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

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

- 1 Obtaining a sufficient Understanding of the Consultant's Activities and of the Terms and Conditions of the Contract
- 2 Procedures to verify the Eligibility of the Fees and Expenditure claimed by the Consultant on the Invoice for the Services and in the Financial Report
 - 2.1 General Procedures
 - 2.2 Conformity of the Fees and Expenditure with the Budget and Analytical Review
 - 2.3 Verification Procedures
 - 2.3.1 Verification Coverage
 - 2.3.2 Verification of Fees and Expenditure
 - 2.3.3 Eligibility of Fees claimed
 - 2.3.4 Eligibility of Expenditure
 - 2.3.5 Accuracy and recording
 - 2.3.6 Classification
 - 2.3.7 Reality (Occurrence / existence)

Annex 1 Terms of Reference

Annex 2 Financial Report provided by the Consultant

Annex 3 Copy of the Invoice of the Consultant