



## EUROPEAN COMMISSION

Executive Agency for Small and Medium-sized Enterprises (EASME)  
Directorate A – H2020, COSME and EMFF  
Unit A3 – European Maritime and Fisheries Fund

### **CALL FOR PROPOSALS MARE/2014/46**

### **ANNEX VII OF THE GRANT AGREEMENT**

### **MODEL TERMS OF REFERENCE FOR THE CERTIFICATE ON THE FINANCIAL STATEMENTS**

#### **PART I**

#### **TABLE OF CONTENTS**

##### **TERMS OF REFERENCE FOR THE CERTIFICATE ON THE FINANCIAL STATEMENTS OF A EUROPEAN UNION FINANCED GRANT AGREEMENT**

<b>1</b>	<b>RESPONSIBILITIES OF THE PARTIES TO THE ENGAGEMENT .....</b>	<b>2</b>
<b>2</b>	<b>SUBJECT OF THE ENGAGEMENT .....</b>	<b>2</b>
<b>3</b>	<b>REASON FOR THE ENGAGEMENT .....</b>	<b>2</b>
<b>4</b>	<b>ENGAGEMENT TYPE AND OBJECTIVE .....</b>	<b>2</b>
<b>5</b>	<b>SCOPE OF WORK.....</b>	<b>3</b>
5.1	The Auditor shall undertake this engagement in accordance with these ToR and:....	3
5.2	The Terms and Conditions of the Grant Agreement .....	3
5.3	Planning, procedures, documentation and evidence.....	3
<b>6</b>	<b>REPORTING.....</b>	<b>3</b>
	Annex 1 .....	4
	Information about the Subject of the Expenditure Verification .....	4
	Annex 2 .....	5
	Scope of Work – Procedures to be performed .....	5

## Part 1

# Terms of Reference for the certificate on the financial statements of a European Union financed Action Grant Agreement

The following are the Terms of Reference ('ToR') on which *<name of the Beneficiary>* 'the Beneficiary' agrees to engage *<name of the audit firm>* 'the Auditor' to perform an expenditure verification and to report in connection with a European Union financed grant Agreement concerning *<title and number of the Grant Agreement>* (the 'Grant Agreement'). The Executive Agency for Small and Medium-sized Enterprises (hereinafter referred to as the EASME), is not a party to this engagement.

The report signed in accordance with the present ToR for an Expenditure Verification corresponds with the requirements of article 208.3 of the Rules of Application of the Financial Regulation requiring the use of audit certificates before certain amount of grant can be paid.

## 1 Responsibilities of the Parties to the Engagement

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

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

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

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

## 2 Subject of the Engagement

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

## 3 Reason for the Engagement

The Beneficiary is required to submit to the EASME a certificate on the financial statements produced by an external auditor in support of the payment requested by the Beneficiary under Article II.23.2(d) (ii) of the General Conditions and Article I.4.1 of the Special Conditions of the Grant Agreement. The Authorising Officer of the EASME requires this report as he makes the payment of expenditure requested by the Beneficiary conditional on the factual findings of this report.

## 4 Engagement Type and Objective

This constitutes an engagement to perform specific agreed-upon procedures regarding an expenditure verification of a European Union financed Grant Agreement. The objective of this expenditure verification is for the Auditor to verify that the expenditure claimed by the Beneficiary in the Financial Report for the action financed by the Grant Agreement has occurred ('reality'), is accurate ('exact') and eligible and to submit to the Beneficiary a report of factual findings with regard to the agreed-

upon procedures performed. Eligibility means that the funds provided by the grant have been spent in accordance with the terms and conditions of the Grant Agreement.

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

## 5 Scope of Work

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

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

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

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

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

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

## 6 Reporting

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

### Information about the Subject of the Expenditure Verification

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

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

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

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

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

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

#### **1 Obtaining a sufficient understanding of the Action and of the Terms and Conditions of the Grant Agreement**

The Auditor obtains a sufficient understanding of the terms and conditions of the Grant Agreement by reviewing the Grant Agreement and its annexes and other relevant information, and by inquiry of the Beneficiary. The Auditor ensures that he obtains a copy of the original Grant Agreement (signed by the Beneficiary and the EASME) with its annexes. The Auditor obtains and reviews copies of the **<interim/final>** Technical Implementation Report and Financial Report (Annexes IV for Monobeneficiary grants and V for Multi-beneficiary Grant Agreement).

The Auditor pays particular attention to Annex I of the Grant Agreement, which contains the Description of the Action and Annex III (Estimated Budget of the Action). If the Auditor finds that the terms and conditions to be verified are not sufficiently clear he should request clarification from the Beneficiary.

#### **2 Procedures to verify the eligibility of expenditure claimed by the Beneficiary in the Financial Report and the payment request for the Action**

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

2.1.1 The Auditor verifies that the Financial Report complies with the conditions of the Grant Agreement.

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

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

2.1.3 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.).

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

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

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

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

## **2.3 Selecting Expenditure for Verification**

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

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

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

### **2.3.2 Selecting Expenditure Items**

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

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

## **2.4 Verification of Expenditure**

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

#### 2.4.1 Eligibility of Direct Costs

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

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

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

#### 2.4.2 Accuracy and Recording

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

#### 2.4.3 Classification

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

#### 2.4.4 Reality (occurrence / existence)

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

#### 2.4.5 Administrative (indirect) costs

When applicable, the Auditor verifies that the administrative (indirect) costs do not exceed a maximum of 7% of the total direct eligible costs of the action (Article II.19.3 of the General Conditions).

## **2.5 Verification Coverage of Expenditure**

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

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

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

### **2.5.1 Expenditure Coverage Ratio (‘ECR’)**

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

## **2.6 Verification of Revenues of the Action**

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