



ERASMUS+ CREATIVE EUROPE

Annex 5 CFS — Report of Factual Findings on the Final Financial Report

Type I (60.000 – 750.000 EUR)

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INTRODUCTION

These guidance notes have been compiled to guide beneficiaries of grants from the Education, Audiovisual and Culture Executive Agency (EACEA - hereafter referred to as 'the Agency') and external auditors in the preparation of the Report of Factual Findings on the Final Financial Report - Type I.

The objective of these guidance notes is to give an overview of the requirements and provisions which are of importance in claiming costs for reimbursement and hence in the certification of the Final Financial Report.

This document is composed of four sections:

- Section I: Purpose and content of the Report of Factual Findings on the Final Financial Report - Type I
- Section II: Practical guidelines for the beneficiary and essential background documents
- Section III: Glossary
- Section IV: Engagement Letter for the Report of Factual Findings on the Final Financial Report - Type I

I. PURPOSE AND CONTENT OF THE REPORT OF FACTUAL FINDINGS ON THE FINAL FINANCIAL REPORT - TYPE I

I.1. General principles

The Report of Factual Findings or Certificate on financial statement (CFS) on the Final Financial Report - Type I is an independent report of factual findings produced by an auditor.

The purpose of the Report is to provide the Agency with a reasonable assurance that:

- All costs as well as all receipts (including other sources of financing) declared in the Final Financial Report are justified by the relevant supporting documents;
- All costs are incurred¹ in the eligibility period in accordance with Article 3 (Duration and starting date of the action) of the Grant Agreement. For costs incurred outside the eligibility period, further guidance is provided in Section II.3.3 of these guidance notes;
- Expenses incurred in a currency other than Euro have been converted in accordance with the provisions² of the Grant Agreement/Decision;
- The beneficiary has complied with the rules for accounting and record keeping in accordance with Articles 12.2 and 13 of the Grant Agreement;
- Sub-contracting and procurement costs comply with the related provisions set by the Grant Agreement.

¹ See 'Glossary' for a definition of "expenditure incurred in the eligibility period".

² Where the beneficiary is required to use the website of the Commission, this refers to InforEuro: http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm

N.B: The submission of a Report of Factual Findings on the Final Financial Report - Type I does not mean that the Agency, the Commission or the Court of Auditors waive their right to carry out their own audits³.

Notwithstanding the procedures to be carried out, the beneficiary⁴ remains at all times responsible and accountable for the accuracy of the Final Financial Report. A beneficiary that has made false declarations or has seriously breached its obligations under the Grant Agreement exposes itself to any of the procedures listed in the Grant Agreement, such as: Reduction of the grant (Article 27), Suspension of payments (Article 32), Suspension of the action implementation (Article 33) and/or Termination of the Grant Agreement (Article 34).

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

The auditor shall ensure that the work has been undertaken:

- in accordance with the International Standard on Related Services ('ISRS') 4400 *Engagements to perform Agreed-upon Procedures regarding Financial Information* as promulgated by the International Auditing and Assurance Standards Board (IAASB) of IFAC;

- in compliance with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA) of IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Agency requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

I.2. Auditors eligible to deliver the Report of Factual Findings on the Final Financial Report - Type I

Each beneficiary is free to choose a qualified external auditor provided that the following cumulative requirements are met:

- the external auditor must be **independent** from the beneficiary;
- the external auditor must be **qualified** to carry out audits of accounting documents in accordance with national legislation. A beneficiary established in a third country (i.e. non-EU member state) must comply with equivalent national regulations in the audit field.

Public bodies can choose between an external auditor and a competent public officer⁵. A preliminary condition is that this competent public officer was not involved in any way in drawing up the Final Financial Report and that he/she is not hierarchically dependent on the officer responsible for the Final Financial Report. Moreover, to be in the position of delivering the report, the public officer should meet at least one of the following competency criteria:

³ The Agency may at any time during the Grant Agreement/Decision and up to five years after the payment of the balance (3 years for low value grants), arrange for audits to be carried out as explained in article Article II.2717 (Checks, reviews, audits and investigations- extension of findings) of the Grant Agreement

⁴ For the purpose of these guidance notes, the term "beneficiary" refers both to the beneficiary (coordinator) and co-beneficiaries (partners). For further details please refer to the Glossary (page 16).

⁵ See 'Glossary' for a definition of 'competent public officer'.

1) Professional experience: minimum three years' professional experience in one of these fields: accounting, financial, taxation and auditing;

2) Qualifications: a level of education which corresponds to completed university studies of at least 4 years attested by a diploma in the accounting, finance and/or auditing field, or professional training/a professional qualification of an equivalent level relevant to these fields.

In choosing an auditor in drawing-up the Report on the Final Financial Report, the beneficiary must also ensure that no conflict of interest exists between the chosen auditor and the beneficiary. A conflict of interest arises when the auditor's objectivity to establish the Report is compromised in fact or in appearance because, for instance, the auditor:

- was involved in the preparation of the Final Financial Report;
- stands to benefit directly should the Report of Factual Findings be accepted;
- has a close relationship with any person representing the beneficiary;
- is a director, trustee or partner of the beneficiary;
- is in any other situation that compromises his/her independence or ability to establish the Report impartially.

I.3. Reimbursement of the costs of the certification

The cost of the certification and the production of the **Report of Factual Findings on the Final Financial Report - Type I** is an **eligible cost** in the Grant Agreement/Decision for which the certification is submitted (Article 6 (Eligible and ineligible costs)).

The cost of the certification is a direct cost and may be charged in the respective category of the budget, as specified in the call for proposal and in the detailed budget tables attached to the project proposal/application.

The price charged for a certification is subject to the general eligibility criteria of the Grant Agreement and should take account of relevant market prices for similar services. Excessive or reckless audit expenditure will be rejected.

The auditor invoices the beneficiary directly giving a breakdown of the amount of fees charged, travel & subsistence reimbursement(s) as well as the VAT applied.

The Agency will not pay the cost of developing the methodology. The eligible costs are limited to the performance of the agreed-upon procedures and exclude any costs relating to consultancy for improvement or refinement of the methodology.

II. PRACTICAL GUIDELINES FOR THE BENEFICIARY AND ESSENTIAL BACKGROUND DOCUMENTS

In order to avoid delays in the submission of the Report, the beneficiary should select and contract the auditor well in advance. **An engagement letter should be signed by both the beneficiary and the auditor.**

A model engagement letter is provided in Section IV of these guidance notes.

As a first step it is essential that the auditor fully understands the requirements of the certification and is provided with a complete set of the documents necessary for the certification.

- Auditor's role:

The auditor's role is limited to reporting only factual findings that confirm whether:

- All costs as well as all receipts (including other sources of financing) declared in the Final Financial Report are justified by the relevant supporting documents;
- All costs are incurred in the eligibility period in accordance with Article 3 of the Grant Agreement. **For costs incurred outside the eligibility period further guidance is provided in Section II 3.3. of these guidance notes;**
- Expenses incurred in a currency other than Euro have been converted in accordance with the provisions⁶ of the Grant Agreement/Decision;
- The beneficiary has complied with the rules for accounting and record keeping in accordance with Articles 12.2 and 13 of the Grant Agreement;
- Sub-contracting and procurement costs comply with the related provisions set the Grant Agreement.

In this context, it is crucial that the Agency specifies in detail the procedures to be undertaken, and the auditor reports the factual findings observed as a result of performing those procedures since these will form the basis for the Agency's acceptance of the beneficiary's Final Report.

- Supporting documents:

In addition to the normal supporting documents needed to perform the required testing procedures, the following documents may serve as a basis for certification (the list is not exhaustive):

- Call for proposals (delete if not applicable)
- Project application (delete if not applicable)
- Grant Agreement signed between the beneficiary and the Agency, any amendments, and the Annexes i.e. 'Description of Work', 'Budget', etc.
- Administrative and Financial Handbook, Programme Guide, Frequently Asked Questions (delete if not applicable), etc.
- The present guidance notes

II.1. Submission of the Report of Factual Findings on the Final Financial Report - Type I

The beneficiary is required to submit to the Agency a Report of Factual Findings on the Final Financial Report - Type I produced by an auditor in support of the payment request under Article 15.4 (v) of the Grant Agreement

The agreed-upon procedures as defined by the Agency are performed to assist the Agency in evaluating, during its desk control, that the costs claimed by the beneficiary in the Final Financial Report have been claimed in accordance with the provisions of the Grant Agreement.

The external auditor or competent public officer must use the reporting format attached in Annex 3 to the Engagement Letter (see Section IV).

The Report of Factual Findings on the Final Financial Report - Type I is composed of two separate documents:

⁶ Where the beneficiary is required to use the website of the Commission, this refers to InforEuro: http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm

- The auditor's Report of Factual Findings to be issued on the auditor's letterhead and dated, stamped and signed by the auditor (or competent public officer)
- The cost breakdown relating to the Action (conforming to the template annexed to the Grant Agreement, i.e. the Excel Final Financial Report), compiled, dated and signed by the beneficiary and countersigned⁷ by the auditor (or competent public officer).

The Report of Factual Findings on the Final Financial Report - Type I must be written in English, French or German.

II.2. Procedures to be carried out for the Report of Factual Findings on the Final Financial Report - Type I

The Agency has designed these procedures in order to obtain standardised and comparable reports from all auditors, who are expected to carry out the procedures without adaptation for the particular circumstances of the beneficiary. In particular all procedures have to be carried out in full and **unaltered**.

It should be noted that the Responsible Authorising Officer will be in charge of taking the relevant decisions on the eligibility of costs declared in the Final Financial Report.

II.3. List of Procedures to be performed and specific guidance

II.3.1. General procedures

(1) Terms and Conditions of the Grant Agreement

The auditor obtains an understanding of the terms and conditions of the Grant Agreement by reviewing:

- a signed copy of the Grant Agreement, its annexes and other relevant information. Particular attention should be paid to the Description of the Action and the Budget;
- the Final Report (which includes a narrative and a financial section).

The auditor should also verify that the budget in the Final Financial Report corresponds to the budget of the Grant Agreement and whether there have been amendments to the Grant Agreement.

Particular attention should be paid to the amendment having an impact on the budget and/or eligibility period.

(2) Final Financial Report for the Grant Agreement

- The Final Financial Report must conform to the model annexed to the Grant Agreement;
- The Final Financial Report should cover the Action or the Work Programme as a whole, regardless of which part of it is financed by the Agency.

(3) Rules for Accounting and Record Keeping

⁷ i.e. By counter-signing, dating and stamping the copy of the list of invoices the auditor (or competent public officer) will confirm that the costs and the revenues declared in the Final Financial Report respect the provisions of the agreed-upon-procedure.

- The auditor examines whether the beneficiary has complied with the rules for accounting and record keeping in accordance with Articles 12.2. and 13 of the Grant Agreement;
- The accounts kept by the beneficiary for the implementation of the Action must be accurate, up-to-date and exhaustive (including all expenditure and income);
- The auditor examines whether the coordinator has a double-entry book-keeping system;
- The income and expenditure relating to the Action must be easily identifiable and verifiable.

The auditor is only required to perform the four procedures listed above on the coordinator's accounting system and records i.e. there is **no requirement to test the co-beneficiaries/ project partners' accounting systems as well**. However, one would expect to see evidence of transactions between the coordinating beneficiary and co-beneficiaries/ partners recorded in the accounting system of the coordinating beneficiary e.g. transfers of project funds between the two entities. Note, however, that supporting documentation from co-beneficiaries/ partners such as invoices and payslips are still required for verification (please see Section II.3.2 below).

II.3.2. Verification evidence

The beneficiary will allow the auditor to carry out verifications on the basis of supporting documents for the accounts, accounting documents and any other document relevant to the financing of the Action.

The beneficiary will allow the auditor access to all documents concerning the technical and financial management of the Action (Article 17 (Checks, reviews and audits by the [Agency and the] Commission) of the Grant Agreement). **It should also be noted further that it is the beneficiary's responsibility to obtain the accounting documents necessary to enable the auditor to verify costs incurred by co-beneficiaries/ project partners.**

Supporting documentation must be available in the form of original documents for the beneficiary (or certified copies of originals for the co-beneficiaries) rather than photocopies or facsimiles.

If the auditor encounters any discrepancies/exceptions in carrying out the performance of the procedures detailed in these guidance notes, e.g. missing supporting documentation, the general rule is for the cost item to be corrected in the Final Financial Report to be submitted to the Agency, i.e. the applicable cost is excluded from the Final Financial Report.

There will be many instances where a discrepancy/ exception is not easily rectified by excluding it from the Final Financial Report, for example non-compliant sub-contracting costs or costs incurred during the eligibility period but not yet paid at the date of submission of the Final Financial Report or incurred after the end of eligibility (e.g. cost of audit report). In such instances, the auditor should report this in the dedicated section of report format (see Section IV of this guidance).

Section II.3 contains some specific instances where the auditor is required to report any deviations in the report format irrespective of the fact that the resulting financial errors would have already been corrected in the Final Financial Report, e.g. exchange rates differences or errors in staff time recording.

Where the auditor is in any doubt as to how to deal with a discrepancy/ exception, it is recommended that it is reported in the dedicated section of the report format and with a sufficient amount of detail that would allow the Agency to be able to make a decision on the issue.

II.3.3. Procedures to verify the expenditure

The following substantive procedures are required to be performed by the auditor to verify expenditure.

(1) All costs are justified by the relevant supporting documents

The auditor verifies, for each expenditure item, that the criteria set out below have been met.

- **Costs actually incurred⁸**

The auditor verifies that the items declared in the Final Financial Report were actually incurred by and pertain to the beneficiary. For this purpose the auditor examines supporting documentation (e.g. invoices, contracts) and proof of payment. The auditor verifies that the monetary value of the all expenditure items agrees with underlying documents (e.g. invoices, payroll documents)

- **Exchange Rates**

The auditor verifies that expenses incurred in a currency other than Euro have been converted in accordance with the provisions of the Grant Agreement. Where the beneficiary is required to use the website of the Commission, this refers to InforEuro⁹.

- **Cut-off - Implementation:**

The auditor verifies that the items were incurred during the period of implementation or the eligibility in accordance with Articles 2 (Duration) and 3 (Duration and Starting date of the action). Invoices related to the eligibility period but not yet paid at the date of submission of the Final Financial Report as well as those costs incurred after the end of the eligibility period should be detailed in the dedicated section of the report format (see Section IV of this guidance).

- **Compliance with sub-contracting and procurement rules**

Where applicable, the auditor examines which procurement rules (as provided for the Grant Agreement) apply for any given expenditure (sub) heading, class of expenditure or expenditure item. The auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents for the procurement and purchase process, e.g. tenders/quotes. Where the auditor finds instances of non-compliance with procurement rules, the nature of the case and the details of the costs should be included in the dedicated section of the report format (see Section IV of this guidance).

(2) Direct costs

In addition to carrying out the procedures listed above in point (1), the following procedures need to be performed by the auditor for the specific cost categories listed below.

⁸ Article 6 (Eligible and Ineligible costs)

⁹ http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm

(a) Staff costs

The auditor verifies that the relevant supporting documents for Staff costs are available and that costs claimed in the Final Financial Report are accurate.

Specifically, the auditor verifies:

- the existence of an employment contract (permanent or temporary) in accordance with relevant national legislation;
- that Staff costs claimed in the Final Financial Report are supported by payslips;
- the time recording of employees (paper/computer, daily/weekly/monthly, signed, authorised). If applicable, this verification might be done by checking the timesheets justifying the number of working days claimed;
- that costs attributable to the project are calculated accurately i.e. the daily rate is correct.

Reminder: for the co-beneficiaries it will be sufficient, for the coordinator, to provide the auditor with the certified copies of staff supporting documents (e.g. payslips).

Which documents should the beneficiary prepare for the auditor?

- Employment contracts for the staff in question;
- Payslips;
- Time recording of employees (e.g. time sheets if applicable);
- Detailed calculations supporting the daily cost claimed in the Final Financial Report.

Reminder: for the co-beneficiaries it will be sufficient, for the coordinator, to provide the auditor with the certified copies of staff supporting documents (e.g. payslips).

(i) Specific considerations for time recording

What is the objective of the time recording check?

This procedure will provide the Agency with the information it needs to assess whether the recording of project time is in line with the costs charged for staff working on the Action.

Normally, time recording should be carried out regularly and authorised by the project manager to ensure that the time worked on the Action can be traced and charged correctly. For the employees declared in the Final Financial Report, the hours charged to the Action should have been accurately recorded in the time recording system. Any discrepancies between the amount charged to the Action and the amount in the recording system (or the absence of a recording system) should be recorded in the dedicated section of the report format (see Section IV of this guidance) and, where possible, the discrepancy should be corrected directly in the Final Financial Report.

Which documents should the beneficiary prepare for the auditor for the time recording check?

The beneficiary should provide a description of the time-recording system and, for the employees declared in the Final Financial Report, make available all the time sheets or provide full access to the computer system which records the time of the employees. The auditor should be able to trace the time charged to the time records of each individual employee.

The auditor also verifies the daily rate by dividing the actual personnel costs by the actual working days¹⁰, and then comparing it to the daily rate charged by the beneficiary.

Reminder: for the co-beneficiaries it will be sufficient, for the coordinator, to provide the auditor with the certified copies of staff supporting documents (e.g. payslips).

(ii) Specific considerations for the Staff cost reconciliation

The auditor verifies the daily rate by dividing the actual personnel costs by the actual working days¹¹, and then comparing it to the daily rate charged by the beneficiary.

What is the objective of this procedure for Staff cost reconciliation?

The objective of this check is to verify that the daily rates being charged have been correctly calculated from the actual underlying cost information for the period in question, namely the costs to the employer (salary / wages including benefits and other employment costs), divided by the number of working days with a reconciliation of the payroll information to the accounting records and payments.

Which documents should the beneficiary prepare for the auditor for Staff cost reconciliation?

The actual payroll information for the period in question (base salary, benefits of all kinds, pension contributions, employers' payroll taxes, social security contribution, etc.) and working days¹² figures used to calculate the daily rates. The beneficiary should also provide a reconciliation/calculation showing how the daily rates were calculated from the payroll information.

If the working days or costs of personnel cannot be identified *or justified by the beneficiary*, the related costs should not be included in the Final Financial Report.

Reminder: for the co-beneficiaries it will be sufficient, for the coordinator, to provide the auditor with the certified copies of staff supporting documents (e.g. payslips).

(b) Other direct costs

For the purpose of these guidance notes, the heading 'Other direct costs' refers generically to all direct cost categories within the approved budget other than Staff costs, for example, travel & subsistence, equipment or production & dissemination costs, etc.

Which documents should the beneficiary prepare for the auditor?

For most transactions in these cost categories, it should be sufficient proof of expenditure if the beneficiary has kept original third-party invoices (or certified copies for co-beneficiaries).

For air travel costs, it is noted further that flight tickets and boarding passes may represent suitable documentation where both the cost of the trip and passengers' names/ dates/ start point & destination are evident.

For subsistence costs, reimbursement may be on the basis of actual costs (reimbursement of hotel invoices and restaurant receipts) or daily allowances. The beneficiary should

¹¹ See 'Glossary' for definition of 'Staff working time (working days)'.

¹² See 'Glossary' for a description of 'working days'.

prepare supporting documentation or calculations of daily allowances, whichever is appropriate. The daily allowances rate to be applied is the one from the destination country e.g. the country in which accommodation costs are incurred..

In either case, proof of attendance and overnight accommodation will be required to substantiate the costs declared.

(3) Indirect Costs

For flat rate indirect costs: no checks need to be carried out by the auditor.

This paragraph applies only to Grants for an Action as in the Operating Grants there are not indirect costs.

(4) Contributions in kind

If contributions in kind are provide for they must be indicated and valued in the budget for the Action and/or in the Grant Agreement.

The auditor verifies that the values declared in the Final Financial Report match the values entered in the initial budget.

The auditor verifies that the values entered for the contributions in kind in the Final Financial Report are correct.

II.3.4. Procedures to verify revenues

The auditor examines whether revenues which should be attributed to the Action (including inter alia grants and funding received from other donors, revenue generated by the Action, contributions in kind) have been allocated to the Action and disclosed in the Final Financial Report. For this purpose the auditor should consult the beneficiary and examines documentation obtained from the beneficiary, e.g. income accounts in the General Ledger¹³.

III. GLOSSARY

ACCOUNTING RECORDS

The accounting records are the accounting entries and the documents supporting the statutory financial statements and/or reporting requirements, as well as, the internal procedures, reports or other documents necessary to understand the accounting system of the beneficiary/co-beneficiaries.

The accounting records include, *inter alia*:

- Accounting entries:
 - Accounting journals
 - General ledger
 - Cash book
 - Inventory register / fixed assets register
- Supporting documents
 - Sales and purchase invoices

¹³ See 'Glossary' for definition of 'General Ledger'.

- Delivery notes, in particular for fixed assets
- Credit notes
- Salary slips
- Bank statements
- Employment contracts/ sub-contracting contracts
- Other documents
 - Rules applied for depreciation
 - Internal rules for reimbursement of travel expenses

ACTION (PROJECT)

Activities carried out by the beneficiary and co-beneficiaries as described in the Annex I of the Grant Agreement.

BENEFICIARY and CO-BENEFICIARIES

For the purpose of these guidance notes, the term "beneficiary" refers both to the beneficiary (coordinator) and co-beneficiaries (partners). It should be noted, however, that for the purpose of the Call for proposal (included the Programme Guide/Handbook¹⁴) and the Grant Agreement it should be understood that:

- The beneficiary is the organisation that, on behalf of the partners (defined as co-beneficiaries) has signed an agreement with the Agency. The beneficiary has the primary legal responsibility towards the Agency for the proper execution of the agreement; he/she also is responsible for the day-to-day coordination and management of the Action and for the usage of the EU funds allocated to the Action.
- The co-beneficiaries are the partners (or consortium) involved in the Action.

COMPETENT PUBLIC OFFICER

A public servant entitled to carry out an audit and/or financial verification as part of his/her duties (e.g. internal or external auditor).

EXPENDITURE INCURRED

Expenditure committed and paid by the beneficiary and co-beneficiaries in the framework of the Action/Work Programme.

FINAL FINANCIAL REPORT

Refers to the form (Annex to the Grant Agreement) whereby the beneficiary declares costs to the Agency in relation with the Grant Agreement. It should be noted that in the article dealing with 'Submission of reports', the Grant Agreement refers to the 'Final Financial Report' as 'Financial Statement'.

FINANCIAL STATEMENTS

¹⁴ Delete if not applicable.

In the context of these guidance notes, Financial Statements refers to the statutory accounts of the beneficiary which are composed of:

1. Statement of Financial Position (also referred to as "Balance Sheet");
2. Statement of Comprehensive Income (also referred to as "Profit and Loss Statement" or a "P&L");
3. Statement of Changes in Equity;
4. Statement of Cash Flows; and
5. Notes to the Financial Statements.

GENERAL LEDGER

The general ledger corresponds to the double-entry accounting in which the financial movements are recorded at the level of each individual account. It presents the chart of accounts of the beneficiary and provides the information on the debit and credit entries made in the individual accounts. The general ledger is the primary source from which the statutory financial statements (or equivalent) are prepared.

RESPONSIBLE AUTHORISING OFFICER (RAO)

The Agency's legal representative and signatory of the Grant Agreement.

STAFF WORKING TIME (WORKING DAYS)

Staff working time is the time actually spent on direct work on the Action. Staff working time has to be clearly justified and should match the underlying time records.

Staff working time:

- should exclude annual leave, public holidays, training and sick leave;
- should be calculated according to the beneficiary's and/or co-beneficiaries' normal practice and may vary depending on the personnel category, industry sector, unions, contracts and national legislation.

WORK PROGRAMME

Activities carried-out by a beneficiary receiving an EU operating grant.

IV. ENGAGEMENT LETTER FOR THE REPORT OF FACTUAL FINDINGS ON THE FINAL FINANCIAL REPORT - TYPE I

The engagement letter is composed by the following documents:

Cover letter (see mandatory text below);

Annex 1 – Information about the Grant Agreement;

Annex 2 – Specific procedures to be performed;

Annex 3 – Compulsory report Format and procedures to be performed.

When drafting the engagement letter, the auditor and the beneficiary should use the text and the annexes below. The auditor and the beneficiary are free to add further arrangements under the section "Other Terms" of the mandatory format. These provisions may not in any event be, contradictory to these guidance notes.

Cover letter

The following are the conditions on which *<name of the beneficiary>* 'the beneficiary' agrees to engage *<name of the audit firm>* 'the auditor' to provide an independent Report of Factual Findings on the Final Financial Report - Type I prepared by the beneficiary in connection with a European Union financed Grant Agreement concerning *<title of the Action and number of the grant contract>* (the 'Grant Agreement'). Where in this letter the 'Agency' is mentioned this refers to the Agency in its capacity as signatory of the Grant Agreement with the beneficiary, providing the grant funding. The Agency is not a party to this agreement.

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 Agency.

- The beneficiary is responsible for providing the Agency with a Final Financial Report for the Action financed by the Grant Agreement which complies with the terms and conditions of the Grant Agreement and for ensuring that this Final Financial Report can be reconciled to the beneficiary's accounting and bookkeeping system and to the underlying accounts and records. The beneficiary is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Final Financial Report. Notwithstanding the procedures to be carried out, the beneficiary remains at all times responsible and liable for the accuracy of the Final Financial Report.
- The beneficiary accepts that the ability of the auditor to perform the procedures required by this engagement effectively depends upon the beneficiary, and as the case may be its partners / co-beneficiaries, providing full and free access to the

beneficiary's staff and its accounting and bookkeeping system and underlying accounts and records.

'The auditor' refers to the auditor responsible for performing the agreed-upon procedures as specified in this letter, and for submitting an independent Report of Factual Findings to the beneficiary.

The auditor must be independent from the beneficiary. By agreeing to this engagement the auditor confirms that at least the following condition/(s) has/have been met:

- [Option 1: delete if not applicable] The auditor is qualified to carry out statutory audits of accounting documents in accordance with Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts¹⁵.
- [Option 2: delete if not applicable] The auditor is a Competent Public Officer who was not involved in the preparation of the Final Financial and meets at least one of the following competency criteria:
 - 1) Professional experience: minimum three years' professional experience in one of these fields: accounting, financial, taxation and auditing;
 - 2) Qualifications: a level of education which corresponds to completed university studies of at least 4 years attested by a diploma in the accounting, finance and/or auditing field, or professional training/a professional qualification of an equivalent level relevant to these fields.
- [Option 3: delete if not applicable] The auditor is qualified to carry out audits of accounting documents in accordance with national legislation.

The procedures to be performed are specified by the Agency and the auditor is not responsible for the suitability and appropriateness of these procedures.

2) Subject of the engagement

The subject of this engagement is the Final Financial Report in connection with the Grant Agreement <Agreement reference number> for the period covering <dd Month yyyy to dd Month yyyy> and the Action entitled <title of the Action>, the 'Action'. Annex 1 to this letter contains information about the Grant Agreement.

3) Reason for the engagement

The beneficiary is required to submit to the Agency a Report of Factual Findings on the Final Financial Report - Type I in the form of an independent certification produced by an auditor in support of the payment requested by the beneficiary in accordance with Article 15.4 (v) (Final Report – request for payment of the balance) of the Grant Agreement. The Agency's Responsible Authorising Officer requires this Report as a condition for the final payment requested by the beneficiary.

¹⁵ OJ L 157, 9.6.2006, p. 87–107.

4) Engagement type and objective

This constitutes an engagement to perform specific agreed-upon procedures regarding an independent verification of costs claimed under the Grant Agreement. The objective of this expenditure verification is for the auditor to carry out the specific procedures listed in Annex 2 to this letter and to submit to the beneficiary a Report of Factual Findings with regard to the specific verification procedures performed. Verification means that the auditor examines the factual information in the Final Financial Report of the beneficiary.

As this engagement is not an assurance engagement, the auditor does not provide an audit opinion and expresses no assurance. The Agency assesses for itself the factual findings reported by the auditor and draws its own conclusions from these factual findings on the Final Financial Report and the payment request of the beneficiary relating thereto.

The auditor shall include in his/her report the amount of the fees and travel & subsistence reimbursement(s) received for providing the Report of Factual Findings and shall certify that no conflict of interest exists between him/her and the beneficiary in establishing the report.

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;
- 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 Agency requires that the auditor is independent from the beneficiary and complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

6) Procedures, evidence and documentation

The auditor plans the work so that effective expenditure verification can be performed. The auditor performs the procedures listed in Annex 2 and applies the related guidelines ('Specific procedures to be performed'). The evidence to be used for performing the procedures in Annex 2 is all financial and non-financial information which makes it possible to examine the expenditure claimed by the beneficiary in the Final 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 the specific guidance provided by the Agency.

7) Reporting

The report on this expenditure verification should describe the purpose, the agreed-upon procedures and the factual findings in sufficient detail to enable the beneficiary and the Agency to understand the nature and extent of the procedures performed by the auditor.

The use of the reporting template attached hereto (Annex 3 - Compulsory report format and procedures to be performed) is mandatory. This report must be provided by the auditor

to <name of the beneficiary> within <xx> number of working days to be indicated by the beneficiary> working days after the day of signature of this engagement.

8) Other Terms

[The beneficiary and the auditor may use this section to agree other specific terms such as auditor's fees, out of pocket expenses, liability, applicable law, etc.]

Signature beneficiary

Signature auditor

Annex 1 – Information about the Grant Agreement

[Annex to be completed by the beneficiary]

Information about the Grant Agreement	
Reference number and date of the Grant Agreement	<Agency's reference of the Grant Agreement >
Programme	
Grant Agreement subject	
Country	
Beneficiary	< full name and address of the beneficiary as indicated in the Grant Agreement >
Start date of the Action	
End date of the Action	
Total cost of the Action	<amount in Article 5.2 (Form of Grant) of the Grant Agreement
Grant maximum amount	<amount in Article 5.1 (Maximum Grant Amount) of the Grant Agreement
Total amount received to date by the beneficiary from Agency	< Total amount received as of dd.mm.yyyy>
Total amount of the payment request	
Auditor	< Name and address of the audit firm and names/positions of the auditors>

Annex 2 - Listing of Specific Procedures to be performed

I. Procedures to be carried out for the Report of Factual Findings on the Final Financial Report - Type I

The Agency has designed these procedures in order to obtain standardised and comparable reports from all auditors, who are expected to carry out the procedures without adaptation for the particular circumstances of the beneficiary. In particular all procedures have to be carried out in full and **unaltered**.

It should be noted that the Responsible Authorising Officer will be in charge of taking the relevant decisions on the eligibility of costs declared in the Final Financial Report.

II. List of Procedures to be performed and specific guidance

II.1. General procedures

(1) Terms and Conditions of the Grant Agreement

The auditor obtains an understanding of the terms and conditions of the Grant Agreement by reviewing:

- a signed copy of the Grant Agreement, its annexes and other relevant information. Particular attention should be paid to the Description of the Action and the Budget;
- the Final Report (which includes a narrative and a financial section).

The auditor should also verify that the budget in the Final Financial Report corresponds to the budget of the Grant Agreement and whether there have been amendments to the Grant Agreement.

Particular attention should be paid to the amendment having an impact on the budget and/or eligibility period.

(2) Final Financial Report for the Grant Agreement

- The Final Financial Report must conform to the model annexed to the Grant Agreement;
- The Final Financial Report should cover the Action or the Work Programme as a whole, regardless of which part of it is financed by the Agency.

(3) Rules for Accounting and Record Keeping

- The auditor examines whether the beneficiary has complied with the rules for accounting and record keeping in accordance with Articles 12.2 and 13 of the Grant Agreement;
- The accounts kept by the beneficiary for the implementation of the Action must be accurate, up-to-date and exhaustive (including all expenditure and income);
- The auditor examines whether the coordinator has a double-entry book-keeping system;
- The income and expenditure relating to the Action must be easily identifiable and verifiable.

The auditor is only required to perform the four procedures listed above on the coordinator's accounting system and records i.e. there is **no requirement to test the co-beneficiaries/ project partners' accounting systems as well**. However, one would expect

to see evidence of transactions between the coordinating beneficiary and co-beneficiaries/ partners recorded in the accounting system of the coordinating beneficiary e.g. transfers of project funds between the two entities. Note, however, that supporting documentation from co-beneficiaries/ partners such as invoices and payslips are still required for verification (please see Section II.3.2 below).

II..2. Verification evidence

The beneficiary will allow the auditor to carry out verifications on the basis of supporting documents for the accounts, accounting documents and any other document relevant to the financing of the Action.

The beneficiary will allow the auditor access to all documents concerning the technical and financial management of the Action (Article 17 (Checks, reviews and audits by the [Agency and the] Commission)). **It should also be noted further that it is the beneficiary's responsibility to obtain the accounting documents necessary to enable the auditor to verify costs incurred by co-beneficiaries/ project partners.**

Supporting documentation must be available in the form of original documents for the beneficiary (or certified copies of originals for the co-beneficiaries) rather than photocopies or facsimiles.

If the auditor encounters any discrepancies/exceptions in carrying out the performance of the procedures detailed in these guidance notes, e.g. missing supporting documentation, the general rule is for the cost item to be corrected in the Final Financial Report to be submitted to the Agency, i.e. the applicable cost is excluded from the Final Financial Report.

There will be many instances where a discrepancy/ exception is not easily rectified by excluding it from the Final Financial Report, for example non-compliant sub-contracting costs or costs incurred during the eligibility period but not yet paid at the date of submission of the Final Financial Report or incurred after the end of eligibility (e.g. cost of audit report). In such instances, the auditor should report this in the dedicated section of report format (see Section IV of this guidance).

Section II.3 contains some specific instances where the auditor is required to report any deviations in the report format irrespective of the fact that the resulting financial errors would have already been corrected in the Final Financial Report, e.g. exchange rates differences or errors in staff time recording.

Where the auditor is in any doubt as to how to deal with a discrepancy/ exception, it is recommended that it is reported in the dedicated section of the report format and with a sufficient amount of detail that would allow the Agency to be able to make a decision on the issue.

II..3. Procedures to verify the expenditure

The following substantive procedures are required to be performed by the auditor to verify expenditure.

(1) All costs are justified by the relevant supporting documents

The auditor verifies, for each expenditure item, that the criteria set out below have been met.

- Costs actually incurred

The auditor verifies that the items declared in the Final Financial Report were actually incurred by and pertain to the beneficiary. For this purpose the auditor examines supporting documentation (e.g. invoices, contracts) and proof of payment. The auditor verifies that the monetary value of the all expenditure items agrees with underlying documents (e.g. invoices, payroll documents)

– Exchange Rates

The auditor verifies that expenses incurred in a currency other than Euro have been converted in accordance with the provisions of the Grant Agreement. Where the beneficiary is required to use the website of the Commission, this refers to InforEuro¹⁶.

– Cut-off - Implementation period:

The auditor verifies that the items were incurred during the period of implementation or the eligibility in accordance with Article 2 (Duration) and 3 (Duration and Starting date of the action). Invoices related to the eligibility period but not yet paid at the date of submission of the Final Financial Report as well as those costs incurred after the end of the eligibility period should be detailed in the dedicated section of the report format (see Section IV of this guidance).

– Compliance with sub-contracting and procurement rules

Where applicable, the auditor examines which procurement rules (as provided for the Grant Agreement) apply for any given expenditure (sub) heading, class of expenditure or expenditure item. The auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents for the procurement and purchase process, e.g. tenders/quotes. Where the auditor finds instances of non-compliance with procurement rules, the nature of the case and the details of the costs should be included in the dedicated section of the report format (see Section IV of this guidance).

(2) Direct costs¹⁷:

In addition to carrying out the procedures listed above in point (1), the following procedures need to be performed by the auditor for the specific cost categories listed below.

(c) Staff costs

The auditor verifies that the relevant supporting documents for Staff costs are available and that costs claimed in the Final Financial Report are accurate.

Specifically, the auditor verifies:

- the existence of an employment contract (permanent or temporary) in accordance with relevant national legislation;
- that Staff costs claimed in the Final Financial Report are supported by payslips;
- the time recording of employees (paper/computer, daily/weekly/monthly, signed, authorised). If applicable, this verification might be done by checking the timesheets justifying the number of working days claimed;
- that costs attributable to the project are calculated accurately i.e. the daily rate is correct.

¹⁶ http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_cn.cfm

¹⁷ Article 6.2 of the Grant Agreement.

Reminder: for the co-beneficiaries it will be sufficient, for the coordinator, to provide the auditor with the certified copies of staff supporting documents (e.g. payslips).

Which documents should the beneficiary prepare for the auditor?

- Employment contracts for the staff in question;
- Payslips;
- Time recording of employees (e.g. time sheets if applicable);
- Detailed calculations supporting the daily cost claimed in the Final Financial Report.

Reminder: for the co-beneficiaries it will be sufficient, for the coordinator, to provide the auditor with the certified copies of staff supporting documents (e.g. payslips).

(i) Specific considerations for time recording

What is the objective of the time recording check?

This procedure will provide the Agency with the information it needs to assess whether the recording of project time is in line with the costs charged for staff working on the Action.

Normally, time recording should be carried out regularly and authorised by the project manager to ensure that the time worked on the Action can be traced and charged correctly. For the employees declared in the Final Financial Report, the hours charged to the Action should have been accurately recorded in the time recording system. Any discrepancies between the amount charged to the Action and the amount in the recording system (or the absence of a recording system) should be recorded in the dedicated section of the report format (see Section IV of this guidance) and, where possible, the discrepancy should be corrected directly in the Final Financial Report.

Which documents should the beneficiary prepare for the auditor for the time recording check?

The beneficiary should provide a description of the time-recording system and, for the employees declared in the Final Financial Report, make available all the time sheets or provide full access to the computer system which records the time of the employees. The auditor should be able to trace the time charged to the time records of each individual employee.

The auditor also verifies the daily rate by dividing the actual personnel costs by the actual working days¹⁸, and then comparing it to the daily rate charged by the beneficiary.

Reminder: for the co-beneficiaries it will be sufficient, for the coordinator, to provide the auditor with the certified copies of staff supporting documents (e.g. payslips).

(ii) Specific considerations for the Staff cost reconciliation

The auditor verifies the daily rate by dividing the actual personnel costs by the actual working days, and then comparing it to the daily rate charged by the beneficiary.

What is the objective of this procedure for Staff cost reconciliation?

The objective of this check is to verify that the daily rates being charged have been correctly calculated from the actual underlying cost information for the period in question, namely the costs to the employer (salary / wages including benefits and other employment

costs), divided by the number of working days with a reconciliation of the payroll information to the accounting records and payments.

Which documents should the beneficiary prepare for the auditor for Staff cost reconciliation?

The actual payroll information for the period in question (base salary, benefits of all kinds, pension contributions, employers' payroll taxes, social security contribution, etc.) and working days¹⁹ figures used to calculate the daily rates. The beneficiary should also provide a reconciliation/calculation showing how the daily rates were calculated from the payroll information.

If the working days or costs of personnel cannot be identified *or justified by the beneficiary*, the related costs should not be included in the Final Financial Report.

Reminder: for the co-beneficiaries it will be sufficient, for the coordinator, to provide the auditor with the certified copies of staff supporting documents (e.g. payslips).

(d) Other direct costs

For the purpose of these guidance notes, the heading 'Other direct costs' refers generically to all direct cost categories within the approved budget other than Staff costs, for example, travel & subsistence, equipment or production & dissemination costs, etc.

Which documents should the beneficiary prepare for the auditor?

For most transactions in these cost categories, it should be sufficient proof of expenditure if the beneficiary has kept original third-party invoices (or certified copies for co-beneficiaries).

For air travel costs, it is noted further that flight tickets and boarding passes may represent suitable documentation where both the cost of the trip and passengers' names/ dates/ start point & destination are evident.

For subsistence costs, reimbursement may be on the basis of actual costs (reimbursement of hotel invoices and restaurant receipts) or daily allowances. The beneficiary should prepare supporting documentation or calculations of daily allowances, whichever is appropriate. The daily allowances rate to be applied is the one from the destination country e.g. the country in which accommodation costs are incurred.

In either case, proof of attendance and overnight accommodation will be required to substantiate the costs declared.

(3) Indirect Costs²⁰

For flat rate indirect costs: no checks need to be carried out by the auditor.

This paragraph applies only to Grants for an Action as in the Operating Grants there are not indirect costs.

(4) Contributions in kind

¹⁹ See 'Glossary' for a description of 'working days'.

²⁰ Article 6.2 F of the Grant Agreement.

If contributions in kind are provided for they must be indicated and valued in the budget for the Action and/or in the Grant Agreement.

The auditor verifies that the values declared in the Final Financial Report match the values entered in the initial budget.

The auditor verifies that the values entered for the contributions in kind in the Final Financial Report are correct.

II.4. Procedures to verify revenues

The auditor examines whether revenues which should be attributed to the Action (including inter alia grants and funding received from other donors, revenue generated by the Action, contributions in kind) have been allocated to the Action and disclosed in the Final Financial Report. For this purpose the auditor should consult the beneficiary and examines documentation obtained from the beneficiary, e.g. income accounts in the General Ledger²¹.

²¹ See 'Glossary' for definition of 'General Ledger'.

Annex 3 – Compulsory Report Format and Procedures to be Performed

To be printed on letterhead paper of the auditor

Independent Report of Factual Findings – Type I on costs claimed under a Grant Agreement financed under the <insert name> Programme

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

< Beneficiary's name>

<Address>

<dd Month yyyy>

In accordance with the terms of our engagement letter dated <dd Month yyyy> with <name of the beneficiary> hereinafter referred to as “the beneficiary”, we hereby provide our Independent Report of Factual Findings (“the Report”), as specified below.

Objective

We [*legal name of the audit firm*], established in [*full address/city/province/country*] represented for signature of this Report by [*name and function of an authorised representative*], have performed agreed-upon procedures regarding the costs declared in the Final Financial Report of [*name of beneficiary*], the beneficiary, to which this Report is attached, and which is to be presented to the Education, Audiovisual and Culture Executive Agency, hereinafter referred to as “the Agency”, under Grant Agreement [*Grant Agreement reference number*] for the following period [*insert period covered by the Final Financial Report*]. This engagement involved performing the procedures listed in Annex 2 of the engagement letter, the results of which the Agency uses to draw conclusions as to the eligibility of the costs claimed.

Standards and ethics

Our engagement was undertaken in accordance with:

- the specific guidance provided by Agency;
- 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 Agency 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 2 to the engagement letter.

These procedures have been determined solely by the Agency and were performed solely to assist the Agency in evaluating whether the expenditure claimed by the beneficiary in the accompanying Final Financial Report has been claimed in accordance with the Grant Agreement. The auditor is not responsible for the suitability and appropriateness of these procedures.

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

Had we performed additional procedures or had we performed an audit or review of the Final Financial Report of the beneficiary in accordance with International Standards on

Auditing, other matters might have come to our attention that would have been reported to you.

Sources of information

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

Factual findings

The above-mentioned Final Financial Report was examined and all procedures specified in Annex 2 to our engagement letter were carried out.

The total expenditure which is the subject of this expenditure verification amounts to EUR<xxxxxx>.

On the basis of the results of these procedures, we found that the total expenditure declared in the Final Financial Report has been justified to us by the beneficiary with the relevant documentation as foreseen in Annex 2 to the engagement letter.

<We report the details of the exceptions which result from the procedures that we performed in Annex of this Report.>

Exceptions [delete if not applicable, i.e. no exceptions have been identified]

i) Cases of non-compliance:

- a) Staff costs: please report any discrepancies between the amount of time charged to the Action and the amount in the recording system
- b) Exchange rate: please report any discrepancies between the amount of expenditure incurred in a currency other than Euro and the related value declared in the Final Financial Report
- c) Eligibility period: please report details of invoices related to the eligibility period but not yet paid at the date of submission of the Final Financial Report as well as those costs incurred after the end of the eligibility period
- d) Sub-contracting/ procurement: please report the nature of the non-compliance and details of the costs affected
- e) Other direct costs: please report the nature of the non-compliance and details of the costs affected

For all instances, please provide sufficient details on the issues concerned, e.g. amount of transaction, date of transaction, invoice or reference number, name of supplier.

ii) Additional information for the consideration of the Agency

This section shall be used by the auditor to signal any issue which does not fall into the categories listed in Section i) above.

Use of this Report

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

This Report is prepared solely for the confidential use of the beneficiary and the Agency and solely for the purpose of submission to the Agency in connection with the requirements as set out in the Grant Agreement. This Report may not be relied upon by the beneficiary or by the Agency for any other purpose, nor may it be distributed to any other parties. The Agency may only disclose this Report to others who have regulatory rights of access to it, in particular the European Commission, the European Anti-Fraud Office and the Court of Auditors.

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

No conflict of interest exists between the auditor and the beneficiary in establishing this Report. The fee paid to the auditor for providing the Report was EUR _____ while a total of EUR _____ has been reimbursed to the auditor for the related travel & subsistence.

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

[legal name of the audit firm]

[name and function of an authorised representative]

<dd Month yyyy>, <Signature of the auditor>

NB: please attach the following document

The cost breakdown relating to the Action (as per the model annexed to the Grant Agreement, i.e. the Excel Final Financial Report), compiled, dated and signed the beneficiary and countersigned by the auditor (or competent public officer).

