

Annex 2A Listing of Specific Procedures to be performed

1. GENERAL PROCEDURES

1.1. Terms and Conditions of the Grant Contract

The Auditor:

- obtains an understanding of the terms and conditions of the Grant Contract by reviewing the Grant Contract and its annexes and other relevant information, and by inquiry of the Coordinator;
- obtains a copy of the original Grant Contract (signed by the Beneficiary(ies) and the Contracting Authority) with its annexes;
- obtains and reviews the Report (which includes a narrative and a financial section) as per Article 2.1 of the General Conditions;
- verifies whether the Grant Contract is mono or multi-beneficiary (see Grant Contract introduction part; in case of a multi-beneficiary grant the term 'Coordinator' is used);
- verifies whether there is (are) an affiliated entity(ies) to any of the Beneficiary(ies) (see Article 7.1 of the Special Conditions).

Note: the purpose of the latter two procedures is for the Auditor to understand the Beneficiary(ies) responsibilities for reporting and access to staff and documents.

The Practical Guide to Contract Procedures for EU External Actions ('PRAG') provides important information for grant contracts (e.g. basic rules and award procedures). Where necessary or useful reference will be made to the PRAG and / or its annexes.

The PRAG can be found at: http://ec.europa.eu/europeaid/work/procedures/implementation/index_en.htm.

The latest key documents that are specifically related to grant contracts can be downloaded by clicking on PRAG, then on Annexes, then on Grants. The version indicated in the Call for Proposal and signed is the one to be used as reference.

1.2. Financial Report for the Grant Contract

The Auditor verifies that the Financial Report complies with the following conditions of Article 2 of the General Conditions the Grant Contract:

- The Financial Report must conform to the model in Annex VI of the Grant Contract;
- The Financial Report should cover the eligible costs of the Action as a whole, regardless of which part of it is financed by the Contracting Authority;
- The Financial Report should be drawn up in the language of the Grant Contract;
- The proof of the transfers of ownership of equipment, vehicles and supplies for which the purchase cost was more than € 5 000 per item (Article 7.5 of the General Conditions of the Grant Contract) as well as the respective certificates of origin (Annex IV of the Grant Contract) should be annexed to the final Financial Report.

1.3. Rules for Accounting and Record keeping

- The Auditor examines — when performing the procedures listed in this Annex — whether the Beneficiary(ies) have complied with the following rules for accounting and record keeping of Article 16 of the General Conditions the Grant Contract:
- The accounts kept by the Beneficiary(ies) for the implementation of the Action must be accurate and up-to-date;

- The Beneficiary(ies) must have a double-entry book-keeping system;
- The accounts and expenditure relating to the Action must be easily identifiable and verifiable.

1.4. Reconciling the Financial Report to the Beneficiary(ies)'s Accounting System and Records

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

1.5. Exchange Rates

The Auditor verifies that amounts of expenditure incurred in a currency other than the Euro have been converted at the exchange rate applicable according to Article 15.9 of the General Conditions. The relevant parts of this article are as follows:

Reports shall be submitted in the currency set out in the Special Conditions, and may be drawn from financial statements denominated in other currencies, on the basis of the Beneficiary(ies)'s applicable legislation and applicable accounting standards. In such case and for the purpose of reporting, conversion into the currency set in the Special Conditions shall be made using the rate of exchange at which the Contracting Authority 's contribution was recorded in the Beneficiary(ies)'s accounts, unless otherwise provided for in the Special Conditions.

Costs incurred in other currencies than the one used in the Beneficiary(ies)'s accounts shall be converted using the monthly Inforeuro on the date of payment or according to its usual accounting practices if so provided for in the Special Conditions.

1.6. Simplified Cost Options

- The Auditor verifies with **Annex III of the Grant Contract** i.e. **Budget for the Action** whether the Beneficiary(ies) have applied for the application of simplified costs i.e. for the application of any or a combination of unit costs, lump sums and flat-rate financing. Eligible costs for the Action may be based on any or a combination of actual costs incurred, unit costs, lump sums and flat-rate financing. Simplified cost options can apply to one or more of the direct cost headings of the Budget for the Action and Financial Report (i.e. cost headings 1 to 6), or to sub-cost headings or to specific cost items within these cost headings.
- The Auditor obtains an understanding of the conditions set out in:
 - **Article 2.1.c) of the General Conditions.** This Article stipulates that in case of simplified cost options the Report for the Action (narrative and financial) shall provide the qualitative and quantitative information needed to demonstrate the fulfilment of the conditions for reimbursement established in the Special Conditions;
 - **Articles 14.3 to 14.5** of the General Conditions; provisions for simplified cost options.

If simplified cost options apply, the Auditor performs the specific procedures set out at 3.1.(2).

2. PROCEDURES TO VERIFY CONFORMITY OF EXPENDITURE WITH THE BUDGET AND ANALYTICAL REVIEW

2.1. Budget of the Grant Contract

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

The Auditor verifies that the budget in the Financial Report corresponds with the budget of the Grant Contract (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Contract.

2.2. Amendments to the Budget of the Grant Contract

The Auditor verifies whether there have been amendments to the budget of the Grant Contract. Where this is

the case the Auditor verifies that the Coordinator has:

- requested an amendment to the budget and obtained an addendum to the Grant Contract if such an addendum was required (Article 9 of the General Conditions).
- informed the Contracting Authority about the amendment if the amendment was within the scope of Article 9.4 of the General Conditions, and an addendum to the Grant Contract was not required.

3. PROCEDURES TO VERIFY SELECTED EXPENDITURE

3.1. Eligibility of Costs

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

(1) *Actual costs incurred (Article 14.1)*

The Auditor verifies that the actual expenditure for a selected item was incurred by and pertains to the Beneficiary(ies) or its (their) affiliated entity(ies). The Auditor should take into account the detailed conditions for actual costs incurred as set out in Article 14.1.(i) to (iii). For this purpose the Auditor examines supporting documents (e.g. invoices, contracts) and proof of payment. The Auditor also examines proof of work done, goods received or services rendered and he/she verifies the existence of assets if applicable.

At final reporting stage the costs incurred during the implementation period but not yet paid can be accepted as actual costs incurred, provided that (1) a liability exists (order, invoice or equivalent) for services rendered or goods supplied during the implementation period of the action, (2) the final costs are known and (3) these costs are listed in the final Financial Report (Annex VI) together with the estimated date of payment (see Article 14.1.a).(ii) of the General Conditions). The Auditor verifies whether these cost items have effectively been paid at the moment of the auditor's verification.

(2) *Simplified cost options¹ (Article 14.3 – 14.5)*

Where simplified cost options apply (see general procedure 1.6) the Auditor verifies:

- which options (i.e. unit costs, lump sums or flat-rate financing) apply and to which (sub)cost-headings and/or cost items (Annex III (Budget for the Action) of the Grant Contract);
- which amount(s) or percentage rate(s) have been contractually agreed (Annex III (Budget of the Action) of the Grant Contract);
- which quantitative and/or qualitative information was used to determine and justify the declared costs (e.g. number of staff, number of items purchased; type of costs and activities financed by a lump sum)²;
- whether the maximum amounts of simplified cost options for each beneficiary (this includes if applicable simplified cost options of its affiliated entity(ies)) are not exceeded;
- the plausibility (i.e. necessity, reasonableness, reality) of the quantitative and qualitative information related to the declared costs;
- that the costs covered by lump sums, unit costs or flat-rate financing are not included (no double funding) in other direct costs (cost headings 1 – 6), either actual or under simplified cost options;
- that the total costs stated in the Financial Report have been correctly determined;

Note: the Auditor is not required to verify the actual costs on which lump sums, unit costs or flat-rate

¹ Refer to Annex "E3a2 Checklist for simplified cost options" to the PRAG for additional information.

² In Annex III (Budget for the Action), the second column of worksheet no.2 ("Justification of the estimated costs") for each of the corresponding budget item or heading should:

- describe the information and methods used to establish the amounts or percentages of simplified cost options, to which costs they refer, etc.;
- explain the formulas for calculation of the final eligible amount;
- identify the beneficiary who use the simplified cost option (in case of affiliated entity, specify first the beneficiary), in order to verify the maximum amount for each beneficiary (which includes if applicable simplified cost options of its affiliated entity(ies))

financing are based.

(3) *Cut-off — Implementation period (Article 14.1a)*

The Auditor verifies that the expenditure for a selected item was incurred during the implementation period of the Action. An exception is made for costs relating to final reports including expenditure verification, audit and final evaluation reports of the Action and which may be incurred after the implementation period of the Action.

(4) *Budget (Article 14.1b)*

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

(5) *Necessary (Article 14.1c)*

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

(6) *Records (Article 14.1d)*

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

(7) *Applicable legislation (Article 14.1e)*

The Auditor verifies that expenditure complies with the requirements of tax and social security legislation where this is applicable (for example: employers part of taxes, pension premiums and social security charges).

(8) *Justified (Article 14.1f)*

The Auditor verifies that expenditure for a selected item is substantiated by evidence (see section 1 of Annex 2B, Guidelines for Specific Procedures to be performed) and supporting documents as specified in Article 16.8 and 16.9 of the General Conditions of the Grant Contract.

(9) *Valuation*

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

(10) *Classification*

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

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

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

3.2. Eligible Direct Costs (Article 14.2)

(1) The Auditor verifies that expenditure for selected items which are recorded under one of the direct costs headings (1 to 6) of the Financial Report, are covered by the direct costs as defined in Article 14.2 by examining the nature of these expenditure items.

- (2) The Auditor verifies that duties, taxes and charges, including VAT which are recorded under direct costs are **not recoverable** by the beneficiary(ies) and/ or its(their) affiliated entities (see Article 14.2.g) of the General Conditions). This procedure is not necessary in case Article 7.1 of the Special Conditions provides that duties, taxes and charges, including VAT are **not** eligible.

The Auditor obtains evidence that the Beneficiary(ies) and or its affiliated entities cannot reclaim the duties, taxes or charges, including VAT through an exemption system and/or a refund *a posteriori*. For this purpose the Auditor should refer to Annex E3a1 (Information on the tax regime) which provides information on the tax regime applicable to grant contracts (*Note*: the standard template / text is annexed to the PRAG and it can be found at the PRAG website mentioned at procedure 1.1 above).

3.3. Contingency Reserve (Article 14.6)

The Auditor verifies that the provision for contingency reserve (heading 8 in Financial Report) does not exceed 5 % of the direct eligible costs of the Action and that the Coordinator has obtained prior written authorisation from the Contracting Authority for the use of this contingency reserve.

3.4. Indirect costs (Article 14.7)

The Auditor verifies that the indirect costs to cover overhead costs (heading 10 in Financial Report) do not exceed the maximum percentage of 7 % of the total final amount of eligible direct costs of the Action or the percentage established in article 3 of the Special Conditions of the Grant Contract if applicable.

3.5. In kind contributions (Article 14.8)

- (1) The Auditor verifies that the costs in the Financial Report do not include contributions in kind. Any contributions in kind (these should be listed separately in Annex III, Budget for the Action), do **not** represent actual expenditure and are not eligible costs.
- (2) Contributions in kind can be accepted as co-financing and in this case this should be explicitly stipulated in Article 7.1 of the Grant Contract. The Auditor verifies whether such co-financing is applicable and whether it is properly stated under heading 12 of the Financial Report.

3.6. Non-eligible costs (Article 14.9)

The Auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in Article 14.9 of the General Conditions. These costs include *inter alia* currency exchange losses.

3.7. Revenues of the Action

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