

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

- **How to use this terms of reference MODEL**

- **(also applies to Annex 1)**

- **insert** the information requested between <...>.
- **choose** the optional text between [...] highlighted in grey when applicable or delete.
- **delete** all yellow instructions and the present text box.

The present terms of reference apply to the verification of expenditure declared in financial reports under the following contracts:

1) Service Contract¹ number and title of the action <...>

[2) Service Contract² number and title of the action <...>]

<Repeat contracts/reports as applicable>

Detailed information is provided at the cover page of Annex 1.

1 Contract in relation to which the financial report subject to verification is issued. The contract established with the expenditure verifier is identified as "Verification Contract"

2 Contract in relation to which the financial report subject to verification is issued. The contract established with the expenditure verifier is identified as "Verification Contract"

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1 Introduction

The present document and the Annexes listed in Section 8 are the terms of reference ('ToR') on which the Contractor agrees to engage 'the Expenditure Verifier' to perform a verification of expenditure reported by Reporting Entities.

Where in these ToR the 'Contracting Authority' is mentioned, this refers to the <European Commission or name of another contracting authority>, which has signed the Service Contract with the Contractor and finances the services. The Contracting Authority is not party to this agreement

These ToR will become an integral part of the contract concluded between the Contractor and the Expenditure Verifier.

They apply to expenditure verifications contracted by the Commission or by the Contractor and cover the verification of expenditure incurred under the EU financed contracts on the cover sheet.

2 Objectives and context

The Expenditure Verifier is expected:

- to carry out the agreed-upon procedures listed in Section 6, and
- to issue reports based on the template in Annex 2 which will support the Contracting Authority's conclusions on the eligibility of the reported expenditure and the related follow-up.

The expenditure verification will be performed as [<Choose either one or both> a desk review or/and fieldwork at the location indicated in Annex 1.]

The Expenditure Verifier is not expected to provide an audit opinion.

3 Standards and Ethics

The Expenditure Verifier shall undertake this engagement in accordance with:

- the International Standard on Related Services ('ISRS') 4400 (Revised) Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
- the IFAC Code of Ethics for Professional Accountants, developed and issued by IFAC's International Ethics Standards Board for Accountants (IESBA), which establishes fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards.

Although ISRS 4400 (Revised) provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the Expenditure Verifier is independent from the Reporting Entity and complies with the independence requirements of the IFAC Code of Ethics for Professional Accountants.

4 Requirements for the Expenditure Verifier

By agreeing these ToR, the Expenditure Verifier confirms meeting at least one of the following conditions:

- The Expenditure Verifier is a member of a national accounting or auditing body or institution which in turn is a member of the International Federation of Accountants (IFAC).
- The Expenditure Verifier is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Expenditure Verifier commits to undertake this expenditure verification in accordance with the IFAC standards and ethics set out in these ToR.
- The Expenditure Verifier is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (this applies to auditors and audit firms based in an EU member state)³.
- The Expenditure Verifier is registered as a statutory auditor in the public register of a public oversight body in a third country and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to auditors and audit firms based in a third country).

5 Scope

5.1 *Contracts and Financial Reports covered by these ToR*

The Contract(s) and Financial Reports subject to this expenditure verification are indicated on the cover sheet and in Annex 1.

5.2 *Conditions for Eligibility of Expenditure*

As per the Article 28.3 of the General Conditions of Service contracts, the Expenditure Verifier must satisfy itself that relevant, reliable and sufficient evidence exists that:

- (a) the experts employed by the contractor for the contract have been working as evidenced on the contract (as corroborated by independent, third-party evidence, where available) for the number of days claimed in the contractor's invoices and in the financial reporting spreadsheet submitted with the interim progress reports; and
- (b) the amounts claimed as incidental expenditure have actually and necessarily been incurred by the contractor in accordance with the requirements of the terms of reference of the contract.

The conditions for eligibility are stipulated in the Contracts which are provided in Annex 1 (including riders).

On the basis of its verification, the Expenditure Verifier submits to the contractor an expenditure verification report in accordance with the model in Annex 2.

³ Directive 2006/43 of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253 EEC.

6 Verification Process and Methodology

6.1 Preparation of the Verification

The Expenditure Verifier shall prepare the verification and agree on the timing for carrying out the expenditure verification, notably with regard to fieldwork (if any) (see Section 6.2. for applicable maximum time lags). The Expenditure Verifier will then also confirm with the Contractor the location(s) indicated in Annex 1 and ensure that relevant supporting documents as well as key staff are available during the verification.

6.2 Preparatory Meeting, Fieldwork, Desk Review

[The Contractor foresees a preparatory meeting with the Expenditure Verifier which will be held <Choose either one or both> by conference call or at <name and address of the meeting place should be clearly stated>.]

The field work or desk review shall commence as soon as possible and not later than <number> calendar days after the signature of the verification contract or the date of availability of the Financial Report (i.e. financial report, supporting documents and other relevant information).

6.2.1 Engagement Context, Materiality, Risk Analysis, Sampling

The Expenditure Verifier's procedures should include:

- obtaining a sufficient understanding of the engagement context including the contractual conditions, the Contractor and the applicable EC laws and regulations which are set out in Section 5 above (Scope). The Expenditure Verifier should pay specific attention to the contractual provisions relevant for the Service contract.

The understanding should be sufficient to identify and assess the risks of material errors or misstatements in the expenditure stated in the Financial Report in order to determine the size and structure of the expenditure sample to be tested, whether caused by error or fraud, and sufficient to design and perform further verification procedures.

- performing a risk analysis.

This work involves an assessment of the inherent risks that:

- The Financial Report is not reliable, i.e. that it does not present, in all material aspects, the actual expenditure incurred in conformity with applicable conditions.
- Expenditure declared in the financial report has not, in all material aspects, been incurred in conformity with applicable contractual conditions.
- Fraud and irregularities have occurred which could have had an impact on expenditure reported under the contract.

The Expenditure Verifier should assess the inherent risk based, inter alia, on the number and complexity of the transactions, the complexity of the activities provided for by the Contract, the number of implementing entities involved and the environment where the Contract is implemented.

In addition the Expenditure Verifier, based inter alia on the information provided in annex 1 to the Terms of Reference (*Engagement Context / Key Information*) will consider the control risk, i.e. whether the design of the Internal Control System sufficiently mitigates the identified inherent risks and whether it is plausible that it is operating effectively.

The outcome of the risk analysis has to be clearly described in the Verification Report (Annex 2, Section 2.1).

- determining the sample size.

For the purpose of determining what the overall material misstatement or error is, the Expenditure Verifier will apply a materiality threshold of 2% of the total amount of the gross reported expenditure with a confidence level of 95%.

- establishing the sample and selecting the individual items for testing.

The link between the risk assessment and the size and composition of the sample, as well as the sampling method (statistical/non-statistical) must be clearly described in the Verification Report (Annex 2, Section 2.2).

- Performing the expenditure checks relevant to the eligibility requirements applicable to the contract.

6.2.2 Fieldwork / Desk Review

The main task during the fieldwork or desk review will be to perform the substantive tests. Key information about the testing process must be provided in the Verification Report (Annex 2, Section 4).

6.2.3 Debriefing Memo and Closing Meeting

At the end of the fieldwork or desk review, the Expenditure Verifier should prepare a debriefing memo, organise a closing meeting with the Contractor in order to discuss the findings, obtain its initial comments and agree on any additional information to be provided at a later date.

6.2.4 Documentation and Verification Evidence

Evidence to be used for performing the expenditure verification tests is all financial and non-financial information which makes it possible to examine the expenditure declared in the Financial Report.

The Expenditure Verifier 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 (Revised) and these ToR.

6.3 Reporting

6.3.1 Structure and Content of the Report

The use of the Expenditure Verification Report template in Annex 2 of these ToR, including the annexed tables, is **compulsory**.

If the verification scope covers Financial Reports related to different Contracts, a separate and specific report should be issued for each Contract.

The report should provide basic information about the Contract and should describe the outcome of the risk analysis and its implications on the sampling. The report should also give an overview of the substantive testing and fully disclose the information regarding the items included in the expenditure population and in the sample. The report should

finally detail the findings identified through the performance of the agreed-upon procedures.

The report should be presented in <language>. The Expenditure Verifier will submit within < number of working days to be indicated by the Contractor > working days of the conclusion of the field work a draft report to the Contractor for comments to be received within < number of working days to be indicated by the Contractor > working days. This delay expired, the Expenditure Verifier will provide the final report to the Contractor within < number of working days to be indicated by the Contractor > working days from the receipt of the comments (if any).

6.3.2 Expenditure Verification Findings and Recommendations

The factual findings shall be reported in accordance with the formats and criteria specified in the Expenditure Verification Report template (Annex 2). The description of findings will include the standard applied (e.g. art. xx of the General Conditions of the Contract), the facts and the analysis of the Expenditure Verifier.

The verification report should include all financial findings made by the Expenditure Verifier, regardless of the amount involved. Changes in the financial findings occurring between the draft and final report as a result of the consultation procedure should be clearly and sequentially reported.

7 Other Matters

7.1 Subcontracting

The Expenditure Verifier will not subcontract without prior written authorisation from the Contractor.

8 Annexes

Annex 1 - Engagement Context / Key Information

Annex 2 - Model for Expenditure Verification Report

Annex 1/<...⁴>: Engagement Context / Key Information

Contract⁵ and report summary

[Annex to be completed by the Contractor]

| Information about the Service Contract | |
|--|--|
| Reference number and date of the Service Contract | < Contracting Authority's reference for the Contract> |
| Service contract title | |
| Country | |
| Contractor | <Full name and address of the Contractor as per the Service Contract> |
| Start date of the contract | |
| End date of the contract | |
| Financial Report(s) subject to verification: | <DD/MM/YYYY-DD/MM/YYYY> <DD/MM/YYYY-DD/MM/YYYY> <DD/MM/YYYY-DD/MM/YYYY> |
| Total amount of the invoice and invoice date | <Total amount as per the Contractor's invoice subject of this verification and the invoice date> |
| Total amount invoiced to the Contracting Authority to date | <Total amount invoiced by the Contractor, the number of invoices and the invoice dates and references> |
| Total amount received to date by the Contractor from Contracting Authority | <Total amount received as per dd.mm.yyyy> |
| Contracting Authority | [<Name, position/title, phone and E-mail of the contact person at the Contracting Authority>. (To be completed only if the Contracting Authority is not the Commission.)] |
| European Commission | <Name, position/title, phone and E-mail of the contact person in the Delegation of the European Union in the country concerned, or if applicable at Headquarters> |
| Auditor | < Name and address of the audit firm and names/positions of the auditors> |

⁴ Sequential number. Fill in a separate annex per contract covered.

⁵ Contract in relation to which the financial report subject to verification is issued. The contract established with the expenditure verifier is identified as "Verification Contract".

| A Logistics | | |
|--------------------|--|--------------|
| Issue | Question | Reply |
| Locations | 1. Where does the Contractor retain the accounting records? | |
| | 2. Where does the Contractor retain the original supporting documents? | |
| | 3. Where were contractual activities carried out? | |
| | 4. Where is key project staff available to provide information and explanations? | |
| Languages | 5. Which is the contractual language? | |
| | 6. Which is the language of the accounting records? | |
| | 7. Which are the languages of supporting documents? | |
| | 8. Which languages are spoken by key project staff? | |

| B Contractual Conditions | | |
|---------------------------------|--|--|
| Contract amount | 9. What is the total amount of the contract? | |

| C Financial Report (enclosed as Annex 1.1) | | |
|---|---|----------------------------|
| Financial report | 10. Approximately how many expense transactions have been reported / are expected to be reported in the Financial Report? | |
| | 11. What is the distribution of these transactions (e.g. fees, incidental expenditure, lump sums etc.), Are the transactions few/many of large/small value? | |
| | 12. To what extent have Project transactions been carried out in cash? | [high, medium, low] |
| | 13. In which currencies has expenditure been incurred? | |
| | 14. What is the reporting currency? | |
| | 15. How many other Financial Reports have already been presented by the Contractor under this contract? | |

| D Previous contracts verifications, audits or monitoring | | |
|---|---|--|
| Previous verifications, audits or monitoring | 16. Which previous experience did the Contractor have with EC Service contracts and associated regulations? | |
| | 17. How many of the previously presented Financial Reports (if any) have been subject to audit/verification by external | |

| | | |
|--|--|--|
| | consultants contracted by the Contractor? | |
| | 18. Have any verification, audit or monitoring exercises other than those referred to under point 17 been carried out with regard to the contract or the Contractor that are relevant for the scope of the current verification? | |
| | 19. Have any significant findings been raised under the exercises referred to under points 17 and 18? If so, what are they? | |
| | 20. Have any instances of fraud or irregularities been previously identified in dealings with the Contractor? | |

E Contact Details

Contractor: <full name of the entity subject to audit>

| | | | |
|---------|--|---------|--|
| Address | | Country | |
| Phone | | Fax | |
| Website | | | |

Key contact

Annex 1/<...>.1: Financial Report(s) to be verified

Annex 1/<...>.2: Contract and riders

<Other documents to be sent to the Auditor, (e.g. narrative reports, previous audit reports)>

**<Annex 2: Model for >Expenditure verification Report
(based on agreed-upon procedures)**

<To be printed on AUDITOR'S letterhead>

**Report for an Expenditure Verification of a Service Contract (Fee –
Based)**

External Actions of the European Union

<Title of and number of the Service contract >

How this model should be completed by the Expenditure Verifier

- **insert** the information requested between <...>
- **choose** the optional text between [...] highlighted in grey when applicable or delete
- **delete** all yellow instructions and the present text box

In accordance with the ISRS 4400 (Revised) the following specifications apply:

- The Expenditure Verifier conducted the expenditure verification in accordance with the International Standards on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures Engagements;
- The Expenditure Verifier makes no representation regarding the appropriateness of the agreed upon procedures;
- The agreed-upon procedure is not an assurance engagement and accordingly the Expenditure Verifier does not express an opinion or an assurance conclusion;
- Had the Expenditure Verifier performed additional procedures, other matters might have come to their attention that would have been reported;
- The Reporting Entity as identified by the Contracting Authority is responsible for the subject matter on which the agreed-upon procedures are performed;
- The expenditure verification report is intended for the purpose specified in the Terms of Reference on which the Contracting Authority agrees to engage the Expenditure Verifier and may not be suitable for another purpose;
- The Expenditure Verifier carried out the engagement in accordance with the IFAC Code of Ethics for Professional Accountants and the fundamental ethical principles and independence requirements established therein, namely: integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards.
- The Expenditure Verifier applies the International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.
- Detailed specifications have been agreed between the Contracting Authority and the Expenditure Verifier and they have been stipulated in the 'Terms of Reference for an Expenditure Verification'. The Terms of Reference are an integral part of the contract concluded between the Contracting Authority and the Expenditure Verifier.

1. Background information

1.1. Short description of the action subject to verification

| | |
|--|--|
| Contract number and title: | |
| Contract type | <service contract...> |
| Financial Report(s) subject to verification | <DD/MM/YYYY-DD/MM/YYYY> <DD/MM/YYYY-DD/MM/YYYY> <DD/MM/YYYY-DD/MM/YYYY> |
| Contractor | < Identify the Contractor and provide key information about their legal form, nationality, size, main field(s) of activity and other elements deemed relevant – max 200 words> |
| Location(s) where the Contract is implemented | |
| Contract execution period | |
| Contract implementation status | < indicate on-going or completed > |
| General and specific objectives of the Contract | |
| Synthetic description of the activities, outputs and target group | <max 300 words> |

1.2. Basic financial information on the Contract (at the time of the verification)

Expenditure

| | Estimated number of working days in the Budget of the contract | Fee rate per working day in the Budget of the contract | Number of working days claimed | Fees claimed (amount) | Amount claimed |
|---------------------------------------|--|--|--------------------------------|-----------------------|----------------|
| FEES (including overheads): | | | | | |
| ... | | | | | |
| PROVISION FOR INCIDENTAL EXPENDITURE: | | | | | |
| ... | | | | | |
| LUMP SUMS | | | | | |
| | | | | | |
| PROVISION FOR | | | | | |

| | | | | | |
|------------------------------|--|--|--|--|--|
| EXPENDITURE VERIFICATION | | | | | |
| | | | | | |
| MAXIMUM CONTRACT VALUE | | | | | |

1.3. Verified Financial Reports/Invoices

See annex 2.1

2. Risk analysis

2.1. Outcome of risk analysis

Based on the risk analysis performed according to the Terms of Reference, provide succinct information about the identified risks that may affect the verified report, regarding the action, the context in which the latter is implemented, the beneficiaries and the target group.

<E.g. of risks are transactions incurred in several currencies, technical complexity, high corruption perception index, instances of political interference, predominance of cash payments, number of parties involved, partners lacking administrative capacity, known weaknesses in internal control systems, lack of involvement or cooperation of the target group, history of fraud cases. (max. 300 words)>

In addition, please identify possible mitigating factors.

< E.g. previous audit or verification work, evidence of close follow up by the contracting authority, good results yielded in the past by the implementing partner, etc. (max. 150 words)>

2.2 Implications on the sampling

Explain how the identified risk factors are reflected in the structure and size of the sample.

<Based on the identified risk factors, describe how the sample was selected (e.g. statistical/judgemental sampling, stratification, etc.), what type of transactions were prioritised (e.g. amount above xx EUR, staff expenditure, incidental expenditure etc.) what is the coverage ratio in amount and number of transaction (max. 200 words)>

3. Transaction population and sample

Sampling Highlights/Overview

The sample size was determined based on a materiality threshold of 2% of the total amount of reported expenditure with a confidence level of 95% and considering the risk analysis presented above.

| Report/invoice: <indicate the report/invoice number and cut-off dates> | | |
|--|------------|-----------------|
| | Population | verified sample |
| Number of transactions | | |
| Value of transactions EUR | | |

[If more than one financial report/invoice is verified, repeat as applicable]

A complete list of the transactions included in the population is to be included in Annex 2.3.

4. Substantive testing

Short description of the testing process

Compliance with the Terms of Reference and with the International Standard on Related Services (ISRS) 4400 (Revised).

<Confirm that the relevant testing procedures were fully applied or disclose any scope limitation. Also confirm that the testing was executed in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), “Engagements to Perform Agreed-upon Procedures Regarding Financial Information”.>

Provide the key information about the testing process.

<E.g. describe if the verification work took place at the implementing partner's premises, whether qualified representatives of the auditee were present, if they were cooperative, if the supporting documentation was available in full, if additional documents had to be received after the field mission, whether evidence of the equipment transfer is available, if physical inspections were performed, any scope limitations, etc. (max. 300 words)>

5. Expenditure verification findings

5.1. Description of findings detected

<Description of the main outcomes of the transaction testing (e.g. type of errors detected, type of transactions, geographic scope, sector, involved implementing partners, etc.) (max. 200 words)>

5.2 Verification team

<List names and expert category levels for this report.>

<Name and signature of the Verifier>

<Verifier's address: office having responsibility for the audit>

[for final reports <Date of signature> the date when the **final** report is signed]

Annex 2.1: Financial reports/invoices provided by the auditee

Annex 2.2: Procedures performed

Annex 2.3: Table of transactions - provided as Excel file

Annex 2.4: Table of errors - provided as Excel file