

UNIVERSITY OF BELGRADE

**Independent Report of Factual Findings – Type II
on costs claimed under a Grant Agreement financed
under the Erasmus+ Programme**

**Soil Erosion and Torrential Flood Prevention:
Curriculum Development at the Universities
of Western Balkan Countries**

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Independent Report of Factual Findings – Type II on costs claimed under a Grant Agreement financed under the Erasmus+ Programme

**Ivanka Popović, Ph.D., Rector
University of Belgrade
Studentski trg 1, 11000 Belgrade**

15 June 2021

In accordance with the terms of our engagement letter dated 12 April 2021 with University of Belgrade, hereinafter referred to as 'the beneficiary', we hereby provide our Independent Report of Factual Findings – Type II ('the Report'), as specified below.

Objective

We, Global Audit Services d.o.o., established in Bulevar despota Stefana 12, Belgrade, Serbia, represented for signature of this Report by Marina Dimitrijević, licensed certified auditor, have performed agreed-upon procedures regarding the costs declared in the Interim Financial Report of University of Belgrade, 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 2018-2579/001-001, Project number 598403-EPP-1-2018-1-RS-EPPKA2-CBHE-JP and its Amendment for the following period from 15 November 2018 to 1 June 2021. 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 Interim 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 Interim Financial Report.

Had we performed additional procedures or had we performed an audit or review of the Interim 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 Interim 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 330,614.39. The Expenditure Coverage Ratio verified by us amounts to 73.69%.

On the basis of the results of these procedures, we found:

We report the details of the exceptions which result from the procedures that we performed in Annex 1 of this Report.

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 Articles I.4 of 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 European Court of Auditors.

This Report relates only to the Interim 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 2,551.50 (without VAT).

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



Global Audit Services d.o.o.
Marina Dimitrijević
Licensed Certified Auditor
15 June 2021



Annex 1: List of exceptions identified by the auditor

Budget heading	Budget item under exception	Reference	Reason for the exception	Amount
Staff costs	Tomislav Stefanović	JD-P1-01/1-TS	Employee's services are being charged via service company	EUR 1,760.00

ANNEX VI - FINAL FINANCIAL STATEMENT

Project Number	598463-EPP-1-2018-1-RS-EPPKA2-CBHE-JP
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Co-financing (for information only)	564.94
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Budget Headings	1. Grant Awarded (in EUR)	2. Budget Spent (in EUR)
1. Staff Costs	285,300.00	107,598.00
2. Travel Costs	202,170.00	22,985.00
3. Costs of Stay	199,250.00	44,760.00
4. Equipment Costs	148,210.00	143,391.98
5. Subcontracting Costs	30,130.00	11,879.41
6. Exceptional Costs	0.00	0.00
Total Grant requested from the European Union	965,070.00	330,614.39

DISTRIBUTION OF THE GRANT BY ORGANISATION (in EUR)

Partner #	Name of Partner	Country	Role Code	Programme Country / Partner Country	1. Staff Costs	2. Travel Costs	3. Costs of Stay	4. Equipment Costs	5. Subcontracting Costs	6. Exceptional Costs	Total (in EUR)
P1	University of Belgrade, Faculty of Forestry	Serbia	Coord	Partner Countries	23,608.00	5,675.00	11,760.00	45,973.47	11,879.41	-	98,895.88
P2	University of Novi Sad	Serbia	Aff. Partner P1	Partner Countries	11,548.00	1,880.00	4,680.00	22,360.22	-	-	40,468.22
P3	University of Niš	Serbia	Aff. Partner P2	Partner Countries	17,604.00	4,615.00	7,200.00	19,196.58	-	-	48,615.58
P4	University of Banja Luka	Bosnia and Herzegovina	Aff. Partner P4	Partner Countries	19,508.00	2,815.00	5,400.00	27,413.43	-	-	55,136.43
P5	University of Sarajevo	Bosnia and Herzegovina	Aff. Partner P6	Partner Countries	6,640.00	3,990.00	7,440.00	28,448.28	-	-	46,518.28
P6	Institute of Forestry	Serbia	Aff. Partner P6	Partner Countries	2,444.00	1,460.00	2,880.00	-	-	-	7,784.00
P7	University of Natural Resources and Life Sciences	Austria	Aff. Partner P7	Programme Countries	9,336.00	720.00	1,680.00	-	-	-	11,736.00
P8	Ss Cyril and Methodius University of Skopje	former Yugoslav Republic of Macedonia	Aff. Partner P8	Programme Countries	-	-	-	-	-	-	-
P9	Mediterranean University of Reggio Calabria	Italy	Aff. Partner P9	Programme Countries	12,432.00	550.00	1,080.00	-	-	-	14,062.00
P10	Forest Research Institute at the Bulgarian Academy of Science	Bulgaria	Aff. Partner P10	Programme Countries	4,478.00	1,280.00	2,640.00	-	-	-	8,398.00
P11					-	-	-	-	-	-	-
P12					-	-	-	-	-	-	-
P13					-	-	-	-	-	-	-
P14					-	-	-	-	-	-	-
P15					-	-	-	-	-	-	-
P16					-	-	-	-	-	-	-
P17					-	-	-	-	-	-	-
P18					-	-	-	-	-	-	-
P19					-	-	-	-	-	-	-
P20					-	-	-	-	-	-	-
P21					-	-	-	-	-	-	-
P22					-	-	-	-	-	-	-
P23					-	-	-	-	-	-	-
P24					-	-	-	-	-	-	-
P25					-	-	-	-	-	-	-
P26					-	-	-	-	-	-	-
P27					-	-	-	-	-	-	-
P28					-	-	-	-	-	-	-
P29					-	-	-	-	-	-	-
P30					-	-	-	-	-	-	-
P31					-	-	-	-	-	-	-
P32					-	-	-	-	-	-	-
P33					-	-	-	-	-	-	-
P34					-	-	-	-	-	-	-
P35					-	-	-	-	-	-	-
P36					-	-	-	-	-	-	-
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P38					-	-	-	-	-	-	-
P39					-	-	-	-	-	-	-
P40					-	-	-	-	-	-	-
P41					-	-	-	-	-	-	-
P42					-	-	-	-	-	-	-
P43					-	-	-	-	-	-	-
P44					-	-	-	-	-	-	-
P45					-	-	-	-	-	-	-
P46					-	-	-	-	-	-	-
P47					-	-	-	-	-	-	-
P48					-	-	-	-	-	-	-
P49					-	-	-	-	-	-	-
P50					-	-	-	-	-	-	-
P51					-	-	-	-	-	-	-
P52					-	-	-	-	-	-	-
P53					-	-	-	-	-	-	-
P54					-	-	-	-	-	-	-
P55					-	-	-	-	-	-	-
Total (in EUR)					107,598.00	22,985.00	44,780.00	143,391.98	11,879.41	-	330,614.39

REQUEST FOR PAYMENT

I hereby request the payment of the balance to the following bank account:

IBAN

RS335840000000059878004

Date, name and signature of the legal representative of the beneficiary institution:

Date: 16.06.2021

Name: IVAUKA Popovic

Function: Receiver

Signature of the legal representative



* If the financial statement is not signed by the legal representative, please provide documentation of accreditation showing that the person who signed the financial statement has the right to sign on behalf of the legal representative.

485-448/2018/106

ENGAGEMENT LETTER FOR THE REPORT OF FACTUAL FINDINGS ON THE FINAL FINANCIAL REPORT

The engagement letter is composed of the following documents:

Cover letter (see mandatory text below);

Annex 1 – Information about the Grant Agreement;

Annex 2 – List of 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 **University of Belgrade**, 'the beneficiary' agrees to engage *Global Audit Services doo* 'the auditor' to provide an independent report of factual findings on the Final Financial Report prepared by the beneficiary in connection with a European Union financed Grant Agreement concerning "**Soil Erosion and Torrential Flood Prevention: Curriculum Development at the Universities of Western Balkan Countries (SETOF)**", **Grant agreement number 2018-2579/001-001** (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 – Type II 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:

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 accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC or similar national regulations.

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 2018-2579/001-001 for the period covering 15.10.2018. to 14.10.2021. and the Action entitled "Soil Erosion and Torrential Flood Prevention: Curriculum Development at the Universities of Western Balkan Countries (SETOF)", 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 in the form of an independent certification produced by an auditor in support of the payment requested by the beneficiary in accordance with Article I.4 of the Grant Agreement. The Agency's Authorising Officer responsible requires this report as a condition for the final payment requested by the beneficiary.

4) Engagement type and objective

This constitutes an engagement to perform specific agreed-upon procedures regarding an independent certification of costs claimed under the Grant Agreement/Decision. 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 – Type II 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 and compares it with the terms and conditions of the Grant Agreement.

As this engagement is not an assurance engagement, the auditor does not provide an audit opinion and expresses no assurance. The 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 fee received for providing the Report of Factual Findings – Type II 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 ('List of 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 – Type II. The auditor documents matters which are important in providing evidence to support the Report of Factual Findings – Type II 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 the University of Belgrade within 192 working days after the day of signature of this engagement.

8) Other terms



All other issues and responsibilities are the subject of a separate agreement, concluded within the framework of national legislation between the beneficiary and the auditor.

Signature beneficiary

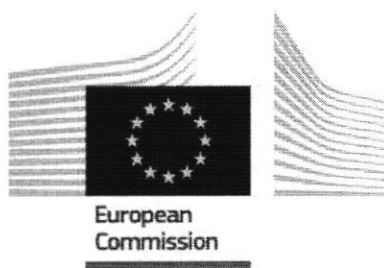
485-448/105-2018

Signature auditor

Annex 1 – Information about the Grant Agreement/Decision

Information about the Grant Agreement/Decision	
Reference number and date of the Grant Agreement/Decision	2018-2579/001-001, 6 November 2018 2018-2579/001-002, 17 June 2019
Programme	Erasmus + Programme
Grant Agreement/Decision subject	Soil Erosion and Torrential Flood Prevention: Curriculum Development at the Universities of Western Balkan Countries
Country	Serbia
Beneficiary	University of Belgrade, Studentski trg 1, 11000 Belgrade
Start date of the Action	15 November 2018
End date of the Action	14 November 2021
Total cost of the Action	EUR 330,614.39
Grant maximum amount	EUR 865,070.00
Total amount received to date by the Beneficiaries from Contracting Authority	EUR 778,528.00
Total amount of the payment request	n/a
Auditor	Global Audit Services d.o.o. Bulevar despota Stefana 12 11000 Belgrade, Serbia



Annex 2 - List of specific procedures to be performed

1. *General procedures*

a) Terms and Conditions of the Grant Agreement/Decision

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

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

b) Final Financial Report and the Grant Agreement/Decision

- The Final Financial Report must conform to the model annexed to the Grant Agreement/ Grant Decision;
- 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.

c) 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 II.19, II.20 and II.27.2 of the Grant Agreement/ General Conditions n° 19, 20 and 27.2 of the Grant Decision;;
- 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 beneficiary has a double-entry book-keeping system;
- The income and expenditure relating to the Action must be easily identifiable and verifiable;

d) Exchange Rates

The auditor verifies that amounts of expenditure incurred in a currency other than the euro have been converted in accordance with the provisions of the Grant Agreement/ Grant Decision. Where the

beneficiary is required to use the website of the Commission, this refers to InforEuro²³.

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 and databases concerning the technical and financial management of the Action (Article II.27 of the Grant Agreement/ General Condition n° 27 of the Grant Decision). **It should also be noted 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 finds that the above criteria for evidence are not sufficiently met, this should be reported as an exception.

3. *Procedures to verify the conformity of expenditure with the budget and analytical review*

- The auditor carries out a substantive review of the expenditure headings in the Final Financial Report;
- The auditor verifies whether there have been amendments to the budget of the Grant Agreement/Decision;
- The auditor verifies that the budget in the Final Financial Report corresponds²⁴ to the budget of the Grant Agreement/Decision (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Agreement/Decision;
- The auditor verifies any transfers between budget headings by comparing the initial budget with the budget in the Final Financial Report and checks that the provisions of Articles I.8 and II.12 of the Grant Agreement/ Article 8 and General Condition n° 12 of the Grant Decision have been complied with.

²³ http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm

²⁴ Some degrees of flexibility in the implementation of the budget are allowed. The rule proposed in the grant agreement/decision is that changes of up to 10% of each item/heading (+ or -) are allowed without amendment, and will remain eligible. Please verify the rule in the grant agreement/decision (some grant agreements/decisions have 15% or 20% flexibility). Any changes within the limit specified in the grant agreement/decision didn't require the beneficiary's request for amending the grant agreement/decision.

Changes above the limit did require an amendment of the budget annexed to the grant agreement/decision. If such request was not approved by the Agency, the costs exceeding the limit should be considered ineligible.

4. *Selecting expenditure for verification and Expenditure Coverage*

The expenditure claimed by the beneficiary in the Final Financial Report is presented in the budget form provided in the Grant Agreement/Grant Decision.

Expenditure headings can be broken down into expenditure subheadings. Expenditure subheadings can be broken down into individual expenditure items or classes of expenditure items with the same or similar characteristics.

What percentage of expenditure needs to be verified by the auditor?

The Expenditure Coverage Ratio ('ECR') represents the total amount of expenditure verified by the auditor expressed as a percentage of the total amount of expenditure reported by the beneficiary in the Final Financial Report (i.e. funded from EU funds and other sources).

The auditor ensures that the overall ECR is at least 70%. If the exception rate is less than 10% of the total amount of expenditure verified (i.e. 7% of total expenditure), the auditor finalises the verification procedures and continues with reporting.

If the exception rate is greater than 10%, the auditor is required to extend the verification procedures until the ECR is at least 85%.

In addition to reaching the minimum coverage of total expenditure stated in the previous two paragraphs, the auditor must ensure that the ECR for each expenditure heading in the Final Financial Report is at least 10%.

On what basis should expenditure items be selected for verification?

In order to both meet the minimum ECR above and ensure that the expenditure verification is systematic and representative:

- value should be the principal factor used by the auditor, i.e. an appropriate number of high value expenditure items should be selected; and
- otherwise, the population selected for testing should be selected on a random basis in order to produce a representative sample.

5. *Procedures to verify selected expenditure*

(a) Eligibility of costs

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

- Costs actually incurred²⁵

The auditor verifies that the expenditure for a selected item was actually incurred by and pertains to the beneficiary. For this

²⁵ Article II.19 of the Grant Agreement and General Condition n° 19 of the Grant Decision.

purpose the auditor examines supporting documentation (e.g. invoices, contracts) and proof of payment. The auditor also examines proof of work done, goods received or services rendered and verifies the existence of assets if applicable.

The auditor verifies that the monetary value of a selected expenditure item is in line with underlying documents (e.g. invoices, payroll documents) and that correct exchange rates are used where applicable.

– Cut-off - Implementation period

The auditor verifies that the expenditure for a selected item was incurred during the period of implementation or eligibility in accordance Article I.2 of the Grant Agreement/ Article 2 of the Grant Decision. Invoices received during the eligibility period but not yet paid, as well as costs relating to the Final Financial Report, should be reported by the auditor under the 'exceptions'. The costs relating to the Final Financial Report should be reasonable and in line with the provisions of Article II.19 of the Grant Agreement/ General Condition n° 19 of the Grant Decision.

– 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 Final Financial Report.

– Necessary / connected²⁶

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 together with supporting documents.

– Sound financial management / economy²⁷

For each selected item, the auditor verifies that the price paid for the goods/services does not represent expenditure that has been incurred excessively or recklessly²⁸, e.g. if the beneficiary is using business class flights for the project whereas its normal policy is for employees to fly economy.

– Compliance with sub-contracting and procurement rules:

Where applicable, the auditor checks that the sub-contracted tasks or activities have been provided for in the initial budget or have been approved by the Agency.

Where applicable, the auditor examines which procurement rules (as provided for by the Grant Agreement/Decision) apply for any given expenditure (sub)heading, class of expenditure items or expenditure item. The auditor verifies whether the expenditure was incurred in accordance with such rules by examining the

²⁶ Idem as footnote n° 29.

²⁷ Idem as footnote n° 29.

²⁸ See 'Glossary' for a definition of 'excessive or reckless expenditure'.

underlying documents of the procurement and purchase process, e.g. tenders/quotes. Where the auditor finds instances of non-compliance with procurement rules, the nature thereof as well as their financial impact in terms of ineligible expenditure should be reported as an exception.

(b) Direct costs²⁹

The auditor verifies the selected expenditure items by carrying out the procedures listed above under (1). In addition, the following specific guidance is provided with regards to staff costs and other direct costs:

(c) Staff costs

- (i) The auditor verifies the employment status and conditions of employment of the personnel.

For the employees selected, the auditor checks that they were:

- directly hired³⁰ by the beneficiary³¹ in accordance with its national legislation;
- hired under the technical supervision and responsibility of the beneficiary alone;
- remunerated in accordance with the beneficiary's normal practice³² for its activities, whether or not funded by the EU.

Any employment contract which does not meet these criteria must be reported by the auditor under the category 'exception'.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned (e.g. payslips), the auditor should accept certified copies.

What is the objective of this procedure?

The Agency seeks to ensure that personnel costs actually relate to employees of the beneficiary carrying out the Action or the Work Programme, and to identify cases where this component may have been effectively 'outsourced' to a different entity despite this not having been provided for in the Grant Agreement/Decision. The Agency also seeks to ensure that no special employment conditions are applied in the case of employees working on the Action which do not form part of the normal practice of the beneficiary.

Which documents should the beneficiary prepare for the auditor?

²⁹ Article II.19.2 of the Grant Agreement and General Condition n° 19.2 of the Grant Decision.

³⁰ See 'Glossary' for a definition of 'directly hired'.

³¹ Reminder of footnote n° 2: 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 20).

³² Please refer to the 'Glossary' (page 17) for further details.

Employment contracts for the staff in question, as well as standard employment contracts in use for personnel who perform a variety of work for the beneficiary (i.e. are not exclusively devoted to an EU-funded project or Work Programme).

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned (e.g. payslips), the auditor should accept certified copies.

What kind of information would give rise to exceptions?

Any deviation from the above principles should be highlighted by the auditor as an exception. Some examples have been provided below (list not exhaustive).

Directly hired³³: Exceptions should be highlighted if there are indications in the contract that the employee has been hired by a different legal entity, including a legal entity within the same group (e.g. if the beneficiary is XYZ and the contract is with XYZ registered in a different country).

Another exception would be if the employee's services are being charged via a service company or other consulting type arrangement.

Remunerated in accordance with the normal practice of the beneficiary: Typical examples of exceptions would include the employee being remunerated by way of a 'lump sum' instead of via a salary arrangement, or any other form of payment / charging which does not form part of the normal practice of the beneficiary.

- (ii) The auditor examines employees' time recording (paper / computer, daily / weekly / monthly, signed, authorised).

What is the objective of this procedure?

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 project.

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 selected, 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 should be recorded as an exception, as should the absence of a recording system.

Which documents should the beneficiary prepare for the auditor?

The beneficiary should provide a description of the time-recording system and, for the employees selected for testing, 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

³³ See 'Glossary' for a definition of 'directly hired'.

able to trace the time charged for the sample selected to the time records of each individual employee.

Reminder: as far as the co-beneficiaries' staff supporting documents are concerned (e.g. payslips), the auditor should accept certified copies.

- (iii) For the employees selected, the auditor verifies the daily rate by dividing the actual personnel costs by the actual working days³⁴, and then comparing it to the daily rate charged by the beneficiary.

What is the objective of this procedure?

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 reconciliation of the payroll information for the selected employees to the accounting records and payments.

Which documents should the beneficiary prepare for the auditor?

The actual payroll information for the period in question (base salary, benefits of all kinds, pension contributions, employers' payroll taxes, social security contributions, etc.) and working days³⁵ 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*, they must be listed (together with the amounts) as exceptions.

What employment costs are not considered eligible or should be regarded as exceptions?

Generally, all employment costs which are part of the normal remuneration policy of the beneficiary are accepted. Costs which have been charged and which relate specifically to involvement in European projects, and are not part of these normal remuneration and/or accounting principles, should be noted as exceptions.

(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.

³⁴ See 'Glossary' for definition of 'Staff working time (working days)'.

³⁵ See 'Glossary' for a description of 'working days'.

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, please also note that flight tickets and boarding passes may represent suitable documentation where both the cost of the trip and passengers' names / dates / place of departure and destination are evident.

What are the most common errors made by beneficiaries for 'Other direct costs'?

a) General: invoices are not detailed enough to establish a clear connection to project activities.

b) Subsistence: subsistence costs claimed may be in excess of the maximum daily rates published in the call for proposal / provided for in the Grant Agreement/Decision.

c) Equipment:

- depreciation may not be calculated correctly in accordance with the terms of the Grant Agreement / Decision;
- the full cost of an item of equipment may be claimed where it should have been depreciated.

d) Production/ dissemination: the beneficiary may not have kept proof of outputs produced e.g. booklets, leaflets, publications, website publicising the Action or Work Programme.

(c) Indirect Costs³⁶

The auditor verifies that the indirect costs to cover administrative overheads do not exceed 7% of the total amount of eligible direct costs of the Action.. **This paragraph applies only to Grants for an Action as in the Operating Grants there is no specific category for indirect costs.**

(d) Ineligible Costs

The auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in ¹ Article II.19.4 of the Grant Agreement and General Condition n° 19.4 of the Grant Decision.

(e) Contributions in kind

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/Decision.

³⁶ Article II.19.3 of the Grant Agreement and General Condition n° 19.3 of the Grant Decision.

The auditor verifies that any contribution in kind included in the initial budget has been delivered to the beneficiary and 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.

6. *Quantification of exceptions*

Wherever possible, the auditor quantifies the full amount of the verification exceptions found. For example, if the auditor finds an exception of EUR 1 000 with regard to procurement rules for a Grant Agreement/Decision where the EU finances 60 % of the expenditure, the auditor reports an exception of EUR 1 000 and a financial impact of EUR 600 (EUR 1 000 x 60%).

Furthermore, the description of the exception should be sufficiently detailed to enable the Agency to determine which expense item in the Final Financial Report the exception relates to. The wording in the ‘factual findings’ paragraph of the report format (see Annex 3 to this engagement letter) allows details of all exceptions to be provided in the form of an Annex. The auditor’s attention is drawn to the fact that favourable exceptions, i.e. exceptions increasing eligible expenditure, are not permitted.

7. *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 examine documentation obtained from the beneficiary, e.g. income accounts in the General Ledger³⁷.

³⁷ See ‘Glossary’ for definition of ‘General Ledger’.