

**Audit Certificate on the beneficiary's financial statement
and underlying accounts**

on Action Grants funded by DG Environment
(European Commission)

GUIDELINES

1. Context

As set out in Art. 108 (1a) of the Financial Regulation (FR), an "**Action Grant**" is a direct financial contribution, by way of donation, from the budget in order to finance an action intended to help achieve an objective forming part of a European Union policy.

DG Environment co-finances a series of action grants under various funding programmes, namely under the LIFE+ Regulation and the Civil Protection Financial Instrument. In addition, DG Environment manages action grants co-financed through funds sub-delegated from other DGs.

According to Art. 180 (2) of the Implementing Rules (IR) to the FR, a certificate on the financial statements and underlying accounts, produced by an approved auditor or in case of public bodies, by a competent and independent public officer is compulsory for action grants with a maximum Community contribution of €750.000 or more, when the cumulative amounts of requests for (interim and/ or final) payment is at least €325.000.

It is specified in Art.31.2 of the Common Provisions that the work to be performed by the independent auditor must be in accordance with, and in the format of, the Guidance provided by the Commission. That guidance has the form of these guidelines and the model audit certificate attached.

It should be stressed that this template is namely applicable to action grants funded under the Civil Protection Financial Instrument. It is also applicable to certain action grants under the LIFE+ Regulation, but only if the grant is managed outside the LIFE-unit (22% of the LIFE+ budget) and the beneficiary is not an International Organisation.

It is not applicable to action grants

- funded under the LIFE+ Regulation and managed by the LIFE-unit (*78 % of LIFE+ budget; similar but own template*);
- with International Organisations (*rules agreed with the International Organisation apply*);
- co-financed through funds sub-delegated from other DGs (*rules of donating DG apply*).

An action grant can be awarded either following a call for proposals or, under certain conditions, as a so-called "direct" grant. In both cases though, the applicant applies for Community financial assistance by sending a proposal to the European Commission, which includes:

- administrative information
- technical description of the project
- project budget with a break-down of expenditure by category and the finance plan
- mandates by the associated beneficiaries and commitments of co-financiers.

If the application is approved by the Commission, the applicant will receive a document entitled "Grant Agreement", comprising

- in the Special Provisions the title of the project, the project duration, the estimated total cost of the project, the maximum Community contribution (as a percentage of the total eligible cost and as an amount);
- the description of the proposal including the project budget;
- the financial reporting tool and guidelines for technical reports;
- the Common Provisions (CP).

In most cases, the Commission will make a single pre-financing payment equivalent to 60% of the maximum Community contribution. For projects described in Art. 27.3 and 27.5 CP, which exceed both a certain threshold and duration, there will be a first pre-financing payment of 40% and a second pre-financing payment of 30%. Should different payment conditions apply to a project, they are specified in the Special Provisions.

Three months after the project end date set out in the Special Conditions, the coordinating beneficiary must submit

- the final technical report;
- a signed payment request and the corresponding statement of expenditure and income comprising the costs incurred by all the project participants (coordinating and associated beneficiaries). In certain cases, namely for beneficiaries with a status "private", the payment requests includes a declaration on interest yielded on the pre-financing payment(s);
- a certified financial audit report if required by Art.31 CP.

The balance (final payment) shall be made after approval of both the final technical report and the final statement of expenditure and income, properly certified by the auditor where applicable.

2. Audit objectives

The purpose of the audit is to obtain sufficient evidence of the accuracy of the statement of expenditure and income in accordance with the Common Provisions, the provisions of the Financial Regulation and in relation to the project budget. The auditor shall also check the sources of the project financing, and in particular that co-financing does not stem from other Community financial instruments.

The audit report shall certify that the costs declared by the beneficiary in the financial statements on which the request of payment is based are real, accurately recorded and eligible and that all receipts have been declared, in accordance with the agreement.

To this end, the auditor must reconcile all the expenses mentioned in the statements with the criteria mentioned in point 4.

The auditor must also verify that all the project income has been declared.

3. Declaration of auditor's competence

The auditor shall complete the declaration foreseen in Annex I to the audit certificate.

4. Audit methodology

4.1 . Verification of the beneficiary's accounting system

The audit shall examine:

- whether the internal accounting (analytical or other suitable internal system) and auditing procedures permits direct reconciliation of the costs and revenues declared under the project,
- whether the actual expenditure/ income under the project has been recorded systematically using a numbering system specific to each project,
- whether when costs are shared between several projects, the appropriate allocation keys have been established that reflect the true burden for each project,

- whether such allocation keys have been applied systematically and correctly.

4.2 . Verification of the eligibility of the declared costs

4.2.1. General checks

The arithmetic coherence within and between the tables in the final financial statement shall be verified. The audit shall also examine whether the costs:

- have been provided for in the budget of the project or have been authorised through an amendment to the grant agreement;
- are directly linked to, and necessary for, carrying out the project;
- are reasonable and comply with the principles of sound financial management, in particular in terms of value for money and cost-effectiveness;
- have been actually incurred during the lifetime of the project;
- have been recorded in the coordinating beneficiary's or any associated beneficiaries' accounts or tax documents;
- are supported by accounting documents in accordance with current national accounting law;
- are compliant with applicable tax and social legislation;
- are correctly allocated,
- whether the correct exchange rates were used (Art. 29.5 CP);
- have been paid before the submission of the final statement of expenditure and income;
- do not comprise ineligible costs in the meaning of Art. 25 CP.

Furthermore it should be examined whether

- VAT amounts included in invoices are eligible costs (NB: VAT is an eligible cost only if the coordinating/ associated beneficiary/ies cannot recover it and provide(s) a certificate (or other appropriate document) on the VAT non-recoverability issued by the competent national authority.
- any modifications to the project budget remain within the limits of 10 % and €30.000 per cost category; or the reasons why these limits were not respected.

4.2.2. Specific checks

Further to the general checks listed above, the following specific checks should be performed.

4.2.2.1. Personnel costs

Personnel costs will be examined to verify:

- whether they were charged in respect of the actual time devoted to the project;
- whether they were calculated on the basis of the annual gross salary or wages (plus obligatory social charges, but excluding any other costs);
- whether the work was carried out during the contractual period;
- whether the time sheets required have been properly filled in and approved by the person authorised to do so under the project;
- in the case of service contracts with individuals: whether these persons worked in the coordinating / associated beneficiary's premises and under its supervision and whether such practise complies with the relevant national legislation.

- For civil servants: whether the declared costs relate to activities which the relevant public authority would not have carried out if the project concerned were not undertaken.

4.2.2.2. Travel and subsistence costs

The travel and subsistence costs will be examined to verify:

- whether the travel was necessary under the project and took place according to the plan in the project proposal;
- whether they were paid and charged in accordance with the internal rules of the coordinating / associated beneficiary

4.2.2.3. Equipment

All equipment costs will be examined to verify:

- whether they relate to purchase or lease of durable goods;
- whether they were placed in the coordinating/ associated beneficiary's inventory of durable goods;
- whether they are treated as capital expenditure in accordance with the tax and accounting rules applicable to the beneficiary or partners of the project;
- whether they are purchased or leased at normal market prices;
- whether the coordinating/ associated beneficiary applied its internal accounting standard/ rules to calculate the eligible depreciation charge, taking into account the type of equipment, the date of its purchase or lease, the duration of the project and the rate of actual use for the purposes of the project;
- whether the public authorities in the partnership (*if applicable*) have respected the national rules on public tendering (Art. 8.4 CP);
- whether the purchase costs have been paid;
- that they were acquired during the contractual period (depreciation costs of equipment acquired before the start-date is considered to be included in the overheads).

4.2.2.4. Sub-contracting/External Assistance

All the Sub-contracting/External Assistance costs will be examined to verify:

- whether they were supported by accounting documents in accordance with national accounting law;
- whether they have been paid;
- whether the accounting documents include a clear reference to the project number and are sufficiently detailed to allow each part of the service rendered to be identified (Art. 8.5 CP);
- whether public beneficiaries have respected the applicable rules on public tendering (Art. 8.4 CP),
- whether private beneficiaries/partners concerned awarded the contract to the bid offering best value for money, observed principles of transparency and equal treatment and avoided conflict of interest (Art. 8.4 CP)
- that the costs do not relate to the purchase or leasing of equipment or consumables (Art. 24.4, 24.6 CP),

4.2.2.5. Other direct costs

Other direct costs will be examined to verify:

- whether they do not fall into another defined category;
- whether they are real and verifiable;
- for consumables: that they are not included in the durable goods inventory of the coordinating/ associated beneficiary and that it has not been considered as capital expenditure;
- that they specifically relate to the project implementation,
- that they do not qualify as overheads, i.e. general consumables supplies, such as office equipment and stationery, communication costs and costs related to buildings should in principle be charged to overheads.

4.2.2.6. Overheads

The overheads will be examined to verify whether they do not exceed a flat-rate of 7% calculated of the total amount of eligible direct costs.

4.2.2.7. Ineligible Costs

The audit will examine whether there are any ineligible costs listed in Art. 25 CP.

4.2 . Verification of the declaration of the project income

The audit will examine:

- that any contribution in kind has been excluded from the declared costs;
- that the financial resources correspond to the agreements concluded between the coordinating beneficiary and the associated beneficiary/ies, and with co-financiers;
- whether the action received any aid from the Structural Funds or other Community budget instruments;
- that all other income generated by the project has been declared;
- that, where applicable, the interest yielded on pre-financing payments has also been declared.