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. 121 of the Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union\(^1\) (hereinafter referred to as 'Financial Regulation'), 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.

According to Art. 207 of the Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of the Regulation (UE, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union\(^2\) (hereinafter referred to as the 'Rules of Application'), 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 Union contribution of €750,000 or more per beneficiary and its affiliated entities, when the cumulative amounts of payment requests is at least €325,000 or more.

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.

Three months, at the latest, after the project end date set out in the Special Conditions, the 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 (beneficiary(ies)).
- a certified financial audit report if required by Art.I.4.4 of the Special Conditions.

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 conditions of the grant agreement, the provisions of the Commission's Financial Regulation and in relation with 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 Union 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.

\(^{1}\) OJ L 298/1, 26.10.2012

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 (action grant),
- 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 estimated budget³ 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 beneficiary’s 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. I.4.6 of the Special Conditions);
- have been paid before the submission of the final statement of expenditure and income;
- do not comprise ineligible costs in the meaning of Art. II.19.4 of the General Conditions.

Furthermore it should be examined whether:

³ By way of derogation from the first subparagraph of Article II.22, the co-ordinator may, in agreement with the co-beneficiaries, when carrying out the action, adjust the estimated budget by transfers between headings of eligible costs, provided that the transfer between headings does not exceed 10% of the amount of each budget category for which the transfer is intended and without exceeding the total eligible costs indicated in point (a) of Article I.3 and provided that this adjustment of expenditure does not affect the implementation of the action. The co-ordinator shall inform the Commission in writing.
• VAT amounts included in invoices are eligible costs (NB: VAT is an eligible cost only if it is required by a private beneficiary, who 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% 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 beneficiary’s premises and under its supervision and whether such practise complies with the relevant national legislation.

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 beneficiary.

4.2.2.3. Equipment
All equipment costs are examined to verify:
• whether they relate to purchase or lease of durable goods;
• whether they were placed in the 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 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 purchase costs were paid;
• that they were acquired during the duration of the action (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;
- whether private beneficiaries 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. II.10 and II.11 of the General Conditions);
- that the costs do not relate to the purchase or leasing of equipment or consumables;

4.2.2.5. Other direct costs

Other direct costs include costs arising from requirements imposed by the agreement (i.e. audit costs, financial guarantee or other direct costs such as dissemination, publications, etc that cannot due to their nature be reported under any of the other cost categories). It should be noted that general consumables supplies, such as telephone, communication costs, heating, paper, copies, etc. should be charged to the overheads category.

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 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. Financial support to third parties

Financial support to third parties will be examined to verify:

- the maximum amount of financial support, which shall not exceed EUR 60 000 for each third party except where the financial support is the primary aim of the action as specified in Annex I;
- the criteria for determining the exact amount of the financial support;
- the different types of activity that may receive financial support, on the basis of a fixed list;
- the definition of the persons or categories of persons which may receive financial support;
- the criteria for giving the financial support.

If the financial support takes the form of a price, the following conditions must be verified:

- the conditions for participation
- the award criteria
- the amount of the prize
- the payment arrangements
4.2.2.7. Overheads

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

4.2.2.8. Ineligible Costs

The audit will examine whether there are any ineligible costs listed in Art. II.19.4 of the General Conditions.

4.3. 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 co-beneficiaries cofinancing corresponds to the agreements concluded between the beneficiary and the co-financiers, if applicable;
- whether the action received any aid from the Structural Funds or other Union budget instruments;
- that all other income generated by the project has been declared.