

## **Guidelines for Expenditure Verification of projects (co-)financed by the Austrian Development Agency (ADA)**

### **Purpose of these Guidelines**

The Guidelines are intended to assist Grant Recipients in defining Terms of Reference (ToR) for Expenditure Verification of Projects (co-)financed by the Austrian Development Agency (ADA) under standard Grant Agreements<sup>1</sup>.

As reporting formats and standards may vary from project to project, these Guidelines only provide the Framework which can be complemented by additional terms according to local requirements, the respective project's needs or upon ADA's request.

In case of multi donor projects, prior consultation with all donors is required in order to meet all demands and to avoid duplication of efforts.

### **Expenditure Verification**

Expenditure Verification is understood as the work performed by the Auditor under the Guidelines set out in this document.

### **Contractor**

The Auditor is engaged by the Grant Recipient in the role of a Contractor and provides Terms of Reference (ToR) in accordance with these Guidelines. A written contract between a Contractor and an Auditor or an Engagement Letter is required.

### **Procurement of the Auditor**

Procurement regulations as stipulated in the ADA's General Terms and Conditions of Grant Agreements apply. Auditors and auditing firms shall be rotated on a regular basis, i.e. at least after five consecutive years.

### **Minimum requirements for Auditors**

The Auditor must meet at least one of the following conditions:

- The Auditor 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 Auditor is a member of a national accounting or auditing body or institution. Although this organisation is not a member of the IFAC, the Auditor commits himself/herself to undertake this Engagement in accordance with the IFAC standards and ethics.
- The Auditor 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).
- The Auditor 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).

The Auditor will employ staff with appropriate professional qualifications and suitable experience with IFAC standards and with experience in verifying financial information of projects comparable in size and complexity to the project subject to the expenditure verification.

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<sup>1</sup> Any Grant Agreement where "General Terms and Conditions to the Austrian Development Agency's Grant Agreement for Support in the Field of Development Cooperation" apply.

The Auditor must have sufficient knowledge of relevant laws, regulations and rules in the countries concerned i.e. where the project is implemented. This includes but is not limited to the company law, taxation, social security and labour regulations, accounting and reporting.

The Auditor will provide the Contractor with CVs of the staff/experts involved in the expenditure verification. The CVs will include appropriate details for the purpose of the evaluation of the offer on the relevant specific experience for this expenditure verification and the qualifying work carried out in the past.

## **Auditing Standards**

The Auditor shall undertake this Engagement in accordance with:

- the International Standard on Related Services ('ISRS') 4400 (Revised) "Agreed-upon Procedures Engagements" 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 regarding 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 ADA requires that the Auditor is independent from the Contractor and complies with the independence requirements of the IFAC Code of Ethics for Professional Accountants.<sup>2</sup>

## **Contractor's duties**

The Contractor, i.e. the Grant Recipient, provides the Auditor with all necessary information to perform his/her work.

All documents relevant to the Expenditure Verification must be specified in the Terms of Reference (ToR) which are annexed to the contract or the Engagement Letter.

The following underlying documents are required as a minimum:

- Grant Agreement concluded between the ADA and the Grant Recipient with all annexes, including contracts or agreements between the Grant Recipient and his/her partners, if any
- Amendments to the Grant Agreement, if any
- The Financial Statement

The Financial Statement (consisting of a summary and a detailed breakdown) must include a comparison of actual vs budgeted expenditure and a detailed voucher list classified according to the relevant budget lines. The Financial Statement must in all aspects adhere to the last approved budget and show at least the same level of detail.

The Financial Statement must cover all project expenses and all project funds whether received from the ADA, the Grant Recipient, other project partners or other donors.

Revenues including accrued interest, if any, and calculations of conversions to the contract currency (generally Euro) are to be attested as well.

Contributions in kind are generally not part of the Project Budget and are thus not reflected in the Financial Statement.

If, in exceptional cases, the project budget includes expenses which cannot be verified by the Auditor, these expenses must be declared in the Terms of Reference (ToR) and in the Financial Statement.

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<sup>2</sup> It follows from the independence requirement that a company or an individual acting as a business consultant or a tax advisor of the Contractor, is not permitted to undertake the Expenditure Verification Engagement under the Grant Agreement.

The Expenditure Coverage Ratio (ECR)<sup>3</sup> is defined in the Terms of Reference (ToR). The Auditor ensures that the overall ECR is at least 65%. If he finds an exception rate of less than 10% of the total amount of expenditure verified (i.e. 6,5 %) the Auditor finalises the verification procedures and continues with reporting. If the exception rate found is higher than 10% the Auditor extends verification procedures until the ECR is at least 85%. The Auditor then finalises verification procedures and continues with reporting regardless of the total exception rate found. The Auditor ensures that the ECR for each expenditure heading and subheading in the Financial Report is at least 10%. The Contractor must reserve the right to share the Expenditure Verification Report and its annexes with all donors.

The ADA reserves the right to reject the Expenditure Verification Report if it does not comply with the required standards. The ADA may at any time require the submission of the original vouchers. The original vouchers must be available for in situ inspection by the ADA at any time for a period of ten years starting from the end of the year during which the last instalment has been disbursed by the ADA. The ADA shall be allowed to inspect in detail the financial management of the Project at any time.

### **Procedures to be performed by the Auditor**

The Auditor verifies based on original documents that

1. the project is implemented in accordance with the principles of economy, efficiency and expediency
2. proper book-keeping and sound financial management have been maintained by the Grant Recipient, the related expenditure practices are correct, Generally Accepted Accounting Standards have been met and an adequate, effective Internal control system exists
3. the project funds have been used in conformity with the Grant Agreement, in particular:
  - a. the project funds were spent exclusively for project related expenses and solely for the purpose intended;
  - b. costs have been incurred during the implementation period;
  - c. costs meet the eligibility criteria stipulated in the Grant Agreement and its annexes
4. the financial report presented by the Grant Recipient presents the actual expenditure incurred and the revenue received for the project for the respective reporting period accurately and in conformity with the Grant Agreement and annexes thereto
5. the project expenditures are allocated to the last approved (allocated) project budget
6. individual expenditures made from grant funds are clear evident from the project bookkeeping and are assigned to the correct budgeted items as specified in the approved Grant Application.
7. it is plausible that the expenditure for a selected item was necessary for the implementation of the project and that it had to be incurred for the contracted activities of the project by examining the nature of the expenditure with supporting documents
8. where expenditure was apportioned, the applied allocation key was based on sufficient, appropriate and verifiable underlying information
9. over expenditure, if any, lies within the thresholds stipulated in the Grant Agreement
10. the projects costs claimed are net cost and free of any VAT; if expenses contain Value Added Tax (VAT), the Auditor shall certify that the Grant Recipient is not exempt from VAT and cannot reclaim it either

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<sup>3</sup> This ratio represents the total amount of expenditure to be verified expressed as a percentage of the total expenditure which has been subject of this

11. costs declared in the Financial Statement are justified by the relevant supporting documents in form of genuine and original invoices, receipts and vouchers bearing all necessary information; these original supporting documents are clearly associated with the project and the project's time frame
12. all expenditures claimed under the financial report have been settled and paid for, no outstanding invoices or accrued costs have been included in the financial report
13. all necessary supporting documents for employees' costs are available and these costs are reported correctly. Specifically, the auditor verifies
  - a. the existence of employment contracts in accordance with the relevant national legislation
  - b. that the reported employees' costs are calculated correctly in accordance with the approved Budget and respective provisions of the General Terms and Conditions
  - c. that only actually paid employees' costs have been claimed under the Financial Report and this has been evidenced by the respective supporting documents
14. indirect costs<sup>4</sup>, if foreseen in the budget, have been calculated properly
15. accrued interest has been declared<sup>5</sup>
16. conversion of currency has been calculated correctly, in particularly the conversion into EUR has been calculated in accordance with the General Terms and Conditions and is evidenced by currency exchange receipts and/or respective bank account statements
17. usage of budget funds under "unforeseen" or "contingency reserve" has been approved by ADA
18. revenues foreseen in the financial plan were not realized
19. other revenues originally not foreseen in the financial plan were registered
20. applicable procurement regulations of the General Terms and Conditions have been complied with
21. applicable provisions of social and labour laws in all countries where the project is being implemented have been complied with
22. applicable provisions of the company and tax laws and regulations have been complied with
23. regulations on travel expenses have been followed
24. all assets and equipment have been incorporated in the asset list
25. assets and equipment have been used for the project purposes
26. depreciation on investment goods that continue to be available to the Grant Recipient after the end of the term of the Agreement has been properly calculated, if applicable
27. equipment or services produced or provided by the Recipient itself have been charged at cost only (without any markup), if applicable
28. project vehicles, if any, have been used according to the standards set out in the General Terms and Conditions of the Grant Agreement
29. sub-grants foreseen in the project document have been provided to third parties and have been properly accounted for based on actual costs

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<sup>4</sup> Indirect costs (also named "Projektbegleitgelt, (PBE)" are calculated proportionally to eligible direct costs and do not require further supporting documents. Audit costs are part of the indirect costs. For details refer to "Guidelines indirect costs".

<sup>5</sup> note that accrued interest must be reimbursed to ADA

30. applicable visibility regulations have been adhered to
31. requests and recommendations from the previous expenditure verifications regarding any project relevant matters have been considered and implemented

## **Reporting**

The Auditor shall invalidate the original receipts and produce an Expenditure Verification Report, that should describe the purpose, the agreed-upon procedures and the findings in enough details. The report should contain at least the following information<sup>6</sup>:

1. Title
2. Addressee
3. Brief description of the project and partner(s)
4. Period covered by the report
5. Total amount of budgeted and actual incomes
6. Complete list of project funds transferred, including donors' names, dates and exchange rates
7. Total amount of actual expenditures verified
8. Expenditure Coverage Ratio
9. Objectives, Scope and Description of the procedures performed
10. Findings from the expenditure verification
11. Recommendations, if applicable
12. Follow up of previous recommendations, if applicable
13. Other relevant matters
14. Date of the report
15. Auditor's address and signature

The Report shall also comprise the following annexes:

1. Financial Statement: overall calculation with comparison of actual expenditures vs. approved budget certified by the company's formal signature (stamp and signature) and by the formal signature (stamp and signature) of the auditor.
2. cash flow statement
3. a detailed voucher list classified according to the relevant budget lines
4. bank account statements
5. list of payable invoices, if any
6. in case ineligible costs are detected, a list of respective vouchers
7. asset list
8. list of procurement contracts awarded during the reporting period
9. list of grant contracts awarded during the reporting periods, if applicable

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<sup>6</sup> For details on reporting please refer to ISRS 4400 (Revised) issued by IFAC.