

## CERTIFICATE ON THE FINANCIAL STATEMENT (CFS)

*(To be filled out by the CFS auditor, printed on their own letterhead and signed (on paper). The scanned PDF should be submitted by the beneficiary through the Portal (both for themselves and their affiliated entities).)*

### Terms of Reference

#### 1. Background and subject matter

A certificate on the financial statements (CFS) must be provided for entities that participate as beneficiary or affiliated entities ('participants') in EU grants — provided that it is required under the Grant Agreement and that certain thresholds of declared expenditure are met (see EU Grant Agreement Data Sheet and Article 24.2).

The purpose of the CFS is to provide the EU granting authority with sufficient information to be able to assess whether costs that are declared on the basis of actual costs or costs according to usual cost accounting practices (if any) and, if relevant, also revenues comply with the conditions set out in the Grant Agreement.

#### 2. Scope and applicable standards

The engagement is to perform specific **agreed-upon procedures** to verify the eligibility of the costs claimed under the Grant Agreement. It is not an assurance engagement; the auditor does not provide an audit opinion, nor express assurance.

The following standards apply:

- the International Standard on Related Services ('ISRS') 4400 (revised) *Agreed-upon Procedures Engagements* as issued by the International Auditing and Assurance Standards Board (IAASB)
- the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA), including the independence requirements (*see explanations below*).

Certificates must be issued according to the highest professional standards. The work must be planned in a way that effective verification can be performed. The auditor must use the evidence obtained from the procedures performed as the basis for the certificate. Matters which are important for the findings and evidence that the work was carried out in accordance with the Terms of Reference must be documented. The findings must be described in sufficient detail to enable the participant and the EU granting authority to ensure appropriate follow-up.

#### 3. Auditors who may deliver a certificate

The participant is free to choose a **qualified external auditor**, including its usual external auditor, provided that:

- the auditor is **independent** from the participant and
- the provisions of **Directive 2006/43/EC**<sup>1</sup> (or similar standards) are complied with.

Although ISRS 4400 states that independence is not a requirement for engagements to carry out agreed-upon procedures, it is one of the qualities to ensure an unbiased approach and therefore required for CoMUC auditors. Compliance with the IESBA Code's independence requirements is therefore mandatory.

**Public bodies** can choose an external auditor or an independent public officer. In this case, independence is usually defined as independence 'in fact and in appearance' (*e.g. that the officer is not involved in drawing up the financial statements*). It is for each public body to appoint the public officer and ensure their independence. The certificate should refer to this appointment.

The **CFS costs** themselves can be charged to the EU project and the choice of auditor should therefore comply with the minimum criteria on best value for money and no conflict of interest as set out in the Grant Agreement. If the participant uses their usual audit firm, it is presumed that they already have an agreement that complies with these provisions.

#### **4. Procedures to be followed and expected results**

The verifications should be undertaken on the basis of inquiry and analysis, (re)computation, comparison, other accuracy checks, observation, inspection of records and documents and by interviewing the participant (and the persons working for them).

The sample-based testing of transactions should be based on the confidence level following the basic systems checks. The sampling method (and size of the sample) should be explained.

General reference can also be made to the similar procedures under the [EU Grants Indicative Audit Programme](#).

##### **4.1 Basic systems checks**

The auditor must obtain a basic understanding of the beneficiary's accounting system, time-recording system and usual practices.

For this purpose, the following documentation must be examined:

- the Grant Agreement (and amendments)
- the periodic reports and financial statements
- internal guidelines and procedures regarding usual accounting practices, purchasing practices, practices regarding travel and rules for giving financial support to third parties (if any).

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<sup>1</sup> 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 or similar national regulations (OJ L 157, 9.6.2006, p. 87).

The auditor must verify that:

- the accounting system is reliable, accurate, up-to-date and exhaustive
- the participant has a double-entry book-keeping system
- the accounting system (analytical or other suitable internal system) makes it possible to identify costs and revenues linked to the EU project
- expenses/revenues under the grant have been recorded systematically using a numbering system that distinguishes them from expenses/income for other projects
- the time-recording system is reliable (time-declarations or other time-recording system)
- the usual practices are compatible with the requirements under the Grant Agreement and in line with national law.

#### **4.2 Verification of eligibility of the costs declared**

##### ***Sample-based testing of transactions***

The auditor must assess the eligibility of the costs declared by testing transactions on a sample basis.

For this purpose, the following **documentation** must be examined:

- for personnel costs:
  - salary slips
  - time records/time sheets
  - employment contracts
  - proofs of payment and relevant accounting documents (*personnel accounts, bank statements, invoices, receipts, etc*)
  - other documents (*social security legislation, etc*)
- for subcontracting:
  - calls for tender (if any)
  - received tenders (if any)
  - justification for the choice of subcontractor
  - contracts with subcontractors
  - invoices
  - proofs of payment and relevant accounting documents

- other documents (*national rules on public tendering if applicable, EU Directives, etc*)
- for travel and subsistence costs:
  - transport invoices and tickets (— only for actual costs)
  - proofs of payment and relevant accounting documents (— only for actual costs)
  - other documents (*proofs of attendance such as minutes of meetings, reports, etc*)
- for equipment costs:
  - invoices
  - delivery slips / certificates of first use
  - proofs of payment and relevant accounting documents
  - depreciation method of calculation
- for costs of other goods and services:
  - invoices
  - proofs of payment and relevant accounting documents
- for financial support to third parties:
  - proposals and project files of supported projects
  - for grants: grant agreements/decisions with the recipients of the support and acceptance forms (if applicable)
  - for prizes: rules of contest
  - expense claims
  - proofs of payment and relevant accounting documents.
- for specific cost categories: documents to be requested depend on the cost category.

The auditor must verify that the costs declared comply with the **general eligibility rules** set out in the Grant Agreement.

In particular, the costs must:

- be actually incurred
- be linked to the subject of the Grant Agreement and indicated in the beneficiary's estimated budget (i.e. the latest version of Annex 2)

- be necessary to implement the action which is the subject of the grant
- be reasonable and justified, and comply with the requirements of sound financial management, in particular as regards economy and efficiency<sup>2</sup>
- have been incurred during the action (duration as defined in the Grant Agreement), with the exception of the invoice for the audit certificate and costs relating to the submission of the last report
- not be covered by another EU grant (*see below ineligible costs*)
- be identifiable, verifiable and, in particular, recorded in the participant's accounting records and determined according to the applicable accounting standards of the country where it is established and its usual cost accounting practices
- comply with the requirements of applicable national laws on taxes, labour and social security
- be in accordance with the provisions of the Grant Agreement and
- have been converted to euro at the rate laid down in the Grant Agreement:

- for participants with accounts established in a currency other than the euro:

Costs incurred in another currency must be converted into euros at the average of the daily euro exchange rates published in the C series of the [EU Official Journal](#) determined over the corresponding reporting period.

If no daily euro exchange rate is published in the EU Official Journal for the currency in question, the rate used must be the average of the monthly accounting exchange rates established by the European Commission and published on its [website](#)

- for participants with accounts established in euro:

Costs incurred in another currency should be converted into euros applying the participant's usual accounting practice.

The auditor must verify whether expenditure includes **VAT** and, if so, verify that the participant:

- cannot recover the VAT (this must be supported by a statement from the competent body) and
- is not a public body acting as a public authority.

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<sup>2</sup> To be assessed in particular on the basis of the procurement and selection procedures for service providers.

In addition, the auditor must verify that the costs declared comply with the **specific cost eligibility rules** set out in the Grant Agreement.

#### *Personnel costs*

The auditor must verify that:

- personnel costs have been charged and paid in respect of the actual time devoted (including correct conversion to day-equivalents) by the participant's personnel to implementing the action justified on the basis of time sheets or other appropriate time-recording system (such as monthly declaration in accordance with the Grant Agreement)
- personnel costs (and the daily rate, if applicable) were calculated on the basis of gross salary, wages or fees (plus obligatory social charges and other supplementary payments, but excluding any other non-eligible costs) specified in an employment or other type of contract, not exceeding the average rates corresponding to the participant's usual policy on remuneration
- the work was carried out during the period of implementation of the action (duration as defined in the Grant Agreement)
- the personnel costs are not covered by another EU grant (*see below ineligible costs*)
- for supplementary payments: the conditions set out in the Grant Agreement are met (i.e. that it is part of the participant's usual remuneration practices and is paid in a consistent manner whenever the same kind of work or expertise is required and that the criteria used to calculate the supplementary payments are objective and generally applied by the participant, regardless of the source of funding used)
- for in-house consultants and seconded personnel: the conditions set out in the Grant Agreement are met (i.e. that the person works under conditions similar to those of an employee, that the result of the work carried out belongs to the participant (unless agreed otherwise), and that the costs are not significantly different from those for personnel performing similar tasks under an employment contract).

The auditor should verify that the management and accounting system ensures proper allocation of the personnel costs to various activities carried out by the participant and funded by various donors.

#### *Subcontracting costs*

The auditor must verify that:

- the subcontracting complies with best value for money (or lowest price) and that there was no conflict of interests
- the subcontracting was necessary to implement the action
- the subcontracting was provided for in Annex 1 and Annex 2 or agreed to by the granting authority at a later stage

- the subcontracting is supported by accounting documents in accordance with national accounting law
- public bodies have complied with the national rules on public procurement.

#### *Travel and subsistence costs*

The auditor must verify that travel and subsistence costs:

- have been charged and paid in accordance with the participant's internal rules/usual practices (or, in the absence of such rules/practices, that they do not exceed the scale normally accepted by the granting authority) (— only for actual costs)
- are not covered by another EU grant (*see below ineligible costs*)
- were incurred for travels linked to action tasks set out in Annex 1 of the Grant Agreement.

#### *Equipment costs*

The auditor must verify that:

- the equipment is purchased, rented or leased at normal market prices
- public bodies have complied with the national rules on public procurement
- the equipment is written off, depreciation has been calculated according to the applicable tax and accounting rules and only the portion of the depreciation corresponding to the duration of the action has been declared (except if the Grant Agreement allows for full purchase costs)
- the costs are not covered by another EU grant (*see below ineligible costs*).

#### *Costs of other goods and services*

The auditor must verify that:

- the purchase complies with best value for money (or lowest price) and that there was no conflict of interests
- public bodies have complied with the national rules on public procurement
- the costs are not covered by another EU grant (*see below ineligible costs*).

#### *Costs of providing financial support to third parties (if applicable)*

The auditor must obtain the details and breakdown of the costs of providing financial support to third parties and sample cost items selected randomly (full coverage is required if there are fewer than 10 items, otherwise the sample should have a minimum of 10 items or 10% of the total, whichever number is highest).

The auditor must verify that:

- the maximum amount of financial support for each third party did not exceed the maximum amount fixed in the Grant Agreement (or otherwise agreed with the granting authority)
- the other conditions set out in the Grant Agreement were respected.

*Specific cost categories (if applicable)*

The verifications for specific cost categories depend on the specific eligibility conditions set out in the Grant Agreement.

⚠ Specific cost categories based on unit costs, flat-rates or lump sum do not need to be checked. The CFS covers only cost categories on the basis of actual costs or costs according to usual cost accounting practices.

Finally, the auditor must verify that the beneficiary has not declared any costs that are explicitly declared **ineligible** under the Grant Agreement:

- costs relating to return on capital
- debt and debt service charges
- provisions for future losses or debts
- interest owed
- currency exchange losses
- bank costs charged by the participant's bank for payments under the Grant Agreement
- excessive or reckless expenditure
- deductible VAT
- VAT incurred by a public body acting as a public authority
- costs incurred during Grant Agreement suspension
- in-kind contributions provided by third parties free of charge
- costs or contributions declared under other EU grants (or grants awarded by a Member State, third country or other body implementing the EU budget), except for the following cases:
  - Synergy actions: if the grants are part of jointly coordinated Synergy calls and funding under the grants does not go above 100% of the costs and contributions declared to them



- if the action grant is combined with an operating grant<sup>3</sup> running during the same period and the participant can demonstrate that the operating grant does not cover any (direct or indirect) costs of the action grant
- costs incurred for permanent staff of a national administration for activities that are part of its normal activities (i.e. not undertaken only because of the grant)
- costs incurred for staff or representatives of EU institutions, bodies or agencies
- place of performance obligation (if applicable): costs or contributions for activities that do not take place in one of the eligible countries set out in the call for proposals — unless approved by the granting authority
  - other ineligible costs (if applicable): [insert name of excluded cost category].

For detailed guidance on procedures for calculating eligible cost, see the [EU Grants AGA — Annotated Grant Agreement](#).

#### 4.3 Verification of revenues

The auditor must verify that the participant has declared revenues within the meaning of the Grant Agreement, i.e. income generated by the action (*e.g. from the sale of products, services and publications, conference fees*).

#### 5. Handling and follow-up of CFS findings

If the auditor finds discrepancies/exceptions, the cost item should normally not be included in the financial statement submitted to the EU (and does not need to be mentioned in this CFS).

If the issue cannot be rectified by excluding the costs from the financial statement or is of more serious systemic nature, it should be reported on in the CFS.

Cases where the auditor has doubts, should also be reported. In addition, the auditor is requested to mention any general comments and other observations that may be relevant for the assessment (or its follow-up).

The CFS does not affect the granting authority's right to carry out its own assessment or audits. Neither does the reimbursement of costs covered by a certificate preclude the granting authority, the European Anti-Fraud Office (OLAF), the European Public Prosecutor's Office (EPPO) or the European Court of Auditors from carrying out checks, reviews, audits and investigations in accordance with the Grant Agreement. The CFS audit is not a full audit and does not give assurance about the legality and regularity of the costs declared.

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<sup>3</sup> For the definition, see Article 180(2)(b) of EU Financial Regulation 2018/1046: '**operating grant**' means an EU grant to finance "the functioning of a body which has an objective forming part of and supporting an EU policy".

## Certificate

To

[Organisation full name  
address]

We, [full name of the audit firm], established in [full address/city/country], represented for signature of this certificate by [name and function of an authorised representative],

### hereby certify

that the findings are the factual results of the agreed upon procedures performed, in particular that:

1 — We have verified the costs and revenues declared in the financial statement of [organisation legal name (short name)], PIC [number], under EU Grant Agreement No [insert number] — [insert acronym], covering costs for the following reporting period(s): [insert reporting period(s)].

Total costs subject to this expenditure verification: EUR [insert number].

2 — The verification was carried out according to the standards and agreed procedures set out in the Terms of Reference.

3 — The verification found that the costs and revenues declared in the financial statements are compliant with the legal and financial provisions of the EU Grant Agreement.

With the following exceptions:

[insert findings and corresponding amounts (if quantifiable)]

Additional observations and comments:

[insert additional information]

4 — We are qualified/authorised to deliver this certificate *[(for additional information, see appendix to this certificate)]* and not subject to any conflict of interest.

5 — The beneficiary paid a **price** of EUR [insert amount]) (including VAT of EUR [insert amount]) for this audit certificate. *[OPTION 1: These costs are eligible under the grant and included in the financial statement.][OPTION 2: These costs were not charged to the grant.]*

## SIGNATURE

For the auditor

[forename/surname/function]

[signature]

[date] [stamp]