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|  | EUROPEAN COMMISSION |

**TERMS OF REFERENCE FOR AN**

**EXPENDITURE VERIFICATION**

**Annex 2: Guidelines for risk analysis and**

**verification procedures**

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# 1. RISK ANALYSIS AND DETERMINATION OF THE SAMPLE

The Expenditure Verifier should assess the risks of material errors or misstatements in the expenditure and revenue declared in the Financial Report in order to determine the size and structure of the expenditure sample to be tested according to the procedures described in Section 2.

This work involves an assessment of the inherent risks that:

• The Financial Report is not reliable, i.e. that it does not present, in all material aspects, the actual expenditure incurred and the revenue received in conformity with applicable conditions.

• Expenditure declared in the financial report has not, in all material aspects, been incurred in conformity with applicable contractual conditions.

• Revenues generated by the Reporting Entity in the execution of the contract are not deducted from the declared expenditure in conformity with applicable conditions.

• Fraud and irregularities have occurred which could have had an impact on expenditure and/or revenue reported under the contract.

The Expenditure Verifier should assess the inherent risk based, inter alia, on the number and complexity of the transactions, the complexity of the activities provided for by the Contract, the number of implementing Entities involved and the environment where the Contract is implemented. In addition the Expenditure Verifier, based inter alia on the information provided in annex 1 to the Terms of Reference (*Engagement Context / Key Information*) will consider the control risk, i.e. whether the design of the Internal Control System sufficiently mitigates the identified inherent risks and whether it is plausible that it is operating effectively.

# 2. EXPENDITURE VERIFICATION PROCEDURES

The following checks must be performed by the Expenditure Verifier unless they are irrelevant in relation to the eligibility criteria applicable to the contract type. Therefore the Expenditure Verifier is required to gain appropriate understanding of such requirements in order to carry out only the relevant checks and properly apply the relevant eligibility requirements.

## 2.1 The expenditure was incurred by and pertains to the Entity.

## 2.2 The expenditure is recorded in the accounting system of the Reporting Entity or of the Other Spending Entities.

The expenditure is recorded in the accounting system of the Reporting Entity or of the Other Spending Entities in accordance with the applicable accounting standards and the Reporting Entity’s usual cost accounting practices.

## 2.3 Expenditure incurred during the contractual eligibility period

The expenditure declared in the financial report was incurred during the contractual implementation period of the Action, except for expenditure relating to final reports, expenditure verification, audit and evaluation. Expenditure paid after the submission of the financial report, is listed in the final report along with the estimated date of payment.

## 2.4 Expenditure indicated in the contractual estimated budget

The expenditure included in the financial report was indicated in the contractual budget.

The applicable budget ceilings were not exceeded.

The expenditure has been allocated to the correct heading of the Financial Report.

## 2.5 Expenditure necessary for the implementation of the contractual activities, reasonable and justified

It is plausible that the direct and indirect expenditures included in the financial report were necessary for the implementation of the contractual activities.

The amount of the expenditure items included in the financial report is reasonable and justified and respects the principle of sound financial management.

## 2.6 Expenditure identifiable and verifiable

The expenditure is backed up by sufficient supporting documentation (e.g. invoices, contracts, order forms, pay slips, time sheets) and proof of payment.

Where expenditure was apportioned, the applied allocation key was based on sufficient, appropriate and verifiable underlying information.

The expenditure is backed up by evidence of works done, goods received or services rendered. The existence of assets is verifiable.

## 2.7 Compliance with Procurement Principles and Nationality and Origin Rules

For the expenditure items concerned, the Reporting Entity has complied with the contractual requirements for procurement. Contractual nationality and origin rules have been applied, including those on derogations to be awarded by the Commission.

## 2.8 Expenditure complies with the requirements of applicable tax and social legislation

For the expenditure items concerned the Reporting Entity complies with the requirements of tax and social security legislation (for example: employer’s part of taxes, pension premiums and social security charges).

## 2.9 Financial support to third parties (sub-granting)

Financial support to third parties is provided for by the contractual conditions and its amount does not exceed the contractual limits.

The expenditure incurred by the third parties meets the relevant eligibility requirements. In particular it was incurred by and pertains to the third party, during the contractual eligibility period, is necessary for the implementation of the contractual activities and is identifiable and verifiable (see definition at point 2.6).

## 2.10 Other eligibility requirements

Duties, taxes and charges, (e.g. VAT) included in the financial report cannot be recovered by the Entity unless otherwise provided for in the contractual conditions (accepted costs system). In the latter case these expenses are reported separately and relate to eligible direct expenditure.

The correct exchange rates are used where applicable.

The contingency reserve has been established in accordance to the contractual conditions and its use authorised by the Contracting Authority.

The indirect costs do not exceed the maximum contractual percentage of the eligible direct costs and do not include ineligible expenses or expenses already declared as direct ones.

Contributions in kind are not included in the financial report, unless otherwise provided for in the contractual conditions.

Expenditure specifically considered ineligible by the contractual conditions is not included in the financial report.

Expenditure declared under the simplified cost options respects the contractual requirements.

The revenues generated by the Reporting Entity in the execution of the contract are disclosed in the financial report and deducted from the declared expenditure, unless otherwise provided for in the contractual conditions.

[If additional checks are needed, notably in case specific objectives are established at point 2 of the Terms of Reference, then add the following:

## 2.11 Additional checks not included in the standard verification procedure

<Describe the additional checks>]