

Annex 2A Listing of Specific Procedures to be performed

[This Annex is a standard listing of specific procedures to be performed and it shall not be modified]

• 1 General Procedures

1.1 Terms and Conditions of the Twinning Contract

The Auditor obtains an understanding of the terms and conditions of the Twinning Contract by reviewing the Twinning Contract and its annexes and other relevant information, such as the relevant Twinning Manual, and by inquiry of the Member State Partner (MSP). The Auditor obtains a copy of the original Twinning Contract (signed by the Member State Partner (MSP) and the Contracting Authority) with its annexes. The Auditor obtains and reviews the Report (which includes a narrative and a financial section) as per Article 2.1 of the General Conditions.

1.2 Financial Report for the Twinning Contract

The Auditor verifies that the Financial Report complies with the following conditions of Article 2 of the General Conditions of the Twinning Contract:

- The Financial Report must conform to the model in Annex C5 of the Common Twinning Manual;
- The Financial Report should cover the Action as a whole, regardless of which part of it is financed by the Contracting Authority;
- The Financial Report should be drawn up in the language of the Twinning Contract;
- The proof of the transfers of ownership of equipment, vehicles and supplies (Article 7.3 of the General Conditions of the Twinning Contract) should be annexed to the final Financial Report.

1.3 Rules for Accounting and Record keeping

The Auditor examines – when performing the procedures listed in this Annex - whether the Beneficiary has complied with the following rules for accounting and record keeping of Article 16 of the General Conditions of the Twinning Contract:

- The accounts kept by the Member State Partner (MSP) for the implementation of the Action must be accurate and up-to-date;
- The Member State Partner (MSP) must have a double-entry book-keeping system;
- The accounts and expenditure relating to the Action must be easily identifiable and verifiable;
- The accounts must provide details of interest accrued on funds paid by the Contracting Authority.

1.4 Reconciling the Financial Report to the Member State Partner's (MSP) Accounting System and Records

The Auditor reconciles the information in the Financial Report to the Member State Partner's (MSP) accounting system and records (e.g. trial balance, general ledger accounts, sub ledgers etc.) (See Article 16.1).

1.5 Exchange Rates

The Auditor verifies that amounts of expenditure incurred in a currency other than the Euro have been converted at the exchange rate which is made up of the average of the rates published in InforEuro for the months covered by the Financial Report, unless otherwise provided in the Special Conditions of the Twinning Contract (Article 15.9 of the General Conditions)

• 2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review

2.1 Budget of the Twinning Contract

The Auditor carries out an analytical review of the expenditure headings in the Financial Report.

The Auditor verifies that the budget in the Financial Report corresponds with the budget of the Twinning Contract (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Twinning Contract.

2.2 Amendments to the Budget of the Twinning Contract

The Auditor verifies whether there have been amendments to the budget of the Twinning Contract. Where this is the case the Auditor verifies that the Member State Partner (MSP) has:

- requested an amendment to budget and obtained an addendum to the Twinning Contract if such an addendum was required (Article 9.1 of the General Conditions).
- informed the Contracting Authority about the amendment in case the amendment was limited (Article 9.2 of the General Conditions) and an addendum to the Twinning Contract was not required.

• 3 Procedures to verify selected Expenditure

3.1 Eligibility of Costs

The Auditor verifies, for each expenditure item selected, the eligibility criteria set out below.

(1) *Costs actually incurred* (Article 14.1)

The Auditor verifies that the expenditure for a selected item was actually incurred by and pertains to the Member State Partner (MSP). For this purpose the Auditor examines supporting documents (e.g. invoices, contracts) and proof of payment. The Auditor also examines proof of work done, goods received or services rendered and he/she verifies the existence of assets if applicable.

(2) *Cut-off - Implementation period* (Article 14.1a)

The Auditor verifies that the expenditure for a selected item was incurred during the implementation period of the Action.

(3) Budget (Article 14.1b)

The Auditor verifies that the expenditure for a selected item was indicated in the Action budget.

(4) Necessary (Article 14.1c)

The Auditor verifies whether it is plausible that the expenditure for a selected item was necessary for the implementation of the Action and that it had to be incurred for the contracted activities of the Action by examining the nature of the expenditure with supporting documents, notably in line with the provisions of the Common Twinning Manual.

(5) Records (Article 14.1d)

The Auditor verifies that expenditure for a selected item is recorded in the Member State Partner's (MSP) accounting system and was recorded in accordance with the applicable accounting standards of the country where the Member State Partner (MSP) is established and the Member State Partner's (MSP) usual cost accounting practices.

(6) Justified (Article 14.1e)

The Auditor verifies that expenditure for a selected item is substantiated by evidence (see section 1 of Annex 2B, Guidelines for Specific Procedures to be performed) and notably the supporting documents as specified in the Annexes to the Twinning contract, in the Common Twinning Manual and in Article 16.2 and 16.3 of the General Conditions of the Twinning Contract.

(7) Valuation

The Auditor verifies that the monetary value of a selected expenditure item agrees with underlying documents (e.g. invoices, salary statements) and that correct exchange rates are used where applicable.

(8) Classification

The Auditor examines the nature of the expenditure for a selected item and verifies that the expenditure item has been classified under the correct (sub)heading of the Financial Report.

(9) Compliance with Procurement, Nationality and Origin Rules

Where applicable the Auditor examines which procurement, nationality and origin rules apply for a certain expenditure (sub)heading, a class of expenditure items or an expenditure item. The Auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents of the procurement and purchase process. Where the Auditor finds issues of non-compliance with procurement rules, he/she reports the nature of such events as well as their financial impact in terms of ineligible expenditure. When examining procurement documentation the Auditor takes into account the risk indicators listed in Annex 2B and he/she reports, if applicable, which of these indicators were found.

3.2 Eligibility of Direct Costs (Article 14.2)

If the expenditure for a selected item is recorded under one of the direct costs headings 1 to 6 of the Financial Report, the Auditor verifies that this type of expenditure is covered by the direct costs as defined in Article 14.2 by examining the nature of the expenditure items concerned.

3.3 Provisions for changes in prices

The Auditor verifies that provisions for changes in prices do not exceed 2.5% of the total eligible costs (direct and indirect) of the Action (sections 5.6.3 of the Common Twinning Manual).

3.4 Twinning Management Costs

The Auditor verifies that the Twinning management costs comply with the requirements as set forth in the Special Conditions of the Twinning contract and in section 5.8 of the Common Twinning Manual.

3.5 Contributions in kind (Article 14.5)

The Auditor verifies that costs in the Financial Report do not include contributions in kind. Contributions in kind are not eligible costs.

3.6 Non-eligible costs (Article 14.6)

The Auditor verifies that the expenditure for a selected item does not concern a non-eligible cost as described in Article 14.6 of the General Conditions. The Auditor verifies whether expenditure includes certain taxes, including VAT. If this is the case the Auditor verifies whether the Member State Partner (MSP) (or, where applicable the partners) cannot reclaim these taxes and whether the applicable regulations, rules and practices in the country concerned allow the coverage of these taxes in the expenditure.

3.7 Revenues of the Action

The Auditor examines whether revenues which should be attributed to the Action (including inter alia grants and funding received from other donors and other revenue generated by the Member State Partner (MSP) in the context of the Action such as for example interest earned) have been allocated to the Action and disclosed in the Financial Report. For this purpose the Auditor inquires with the Member State Partner (MSP) and examines documentation obtained from the Member State Partner (MSP). The Auditor is not expected to examine the completeness of the revenues reported.

Annex 2B Guidelines for Specific Procedures to be performed

[This Annex provides standard guidelines for the specific procedures to be performed and these guidelines shall not be modified]

• 1 Verification Evidence

When performing the specific procedures listed in Annex 2A the Auditor may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations.

The Auditor obtains verification evidence from these procedures to draw up his report of factual findings. Verification evidence is all information used by the Auditor in arriving at the factual findings and it includes the information contained in the accounting records underlying the Financial Report and other information (financial and non-financial).

The contractual requirements that relate to verification evidence are:

- Expenditure should be identifiable, verifiable and recorded in the accounting records of the Member State Partner (MSP) (Article 14.1.d) of the General Conditions of the Twinning Contract);
- Expenditure must be easily identifiable and verifiable and traced to and within the Member State Partner's (MSP) accounting and bookkeeping systems (Article 16.1 of the General Conditions);
- The Member State Partner (MSP) will allow any external auditor to carry out verifications on the basis of supporting documents for the accounts, accounting documents and any other document relevant to the financing of the Action. The Member State Partner (MSP) gives access to all documents and databases concerning the technical and financial management of the Action (Article 16.2 of the General Conditions);
- Article 16.3 of the General Conditions of the Twinning Contract provides a list of the types and nature of evidence that the Auditor will often find in expenditure verifications.

Moreover, for the purpose of the procedures listed in Annex 2A, evidence:

- Must be available in documentary form, whether paper, electronic or other medium (e.g. a written record of a meeting is more reliable than an oral presentation of the matters discussed);
- Must be available in the form of original documents rather than photocopies or facsimiles;
- Should preferably be obtained from independent sources outside the entity (an original suppliers invoice or contract is more reliable than an internally approved receipt note);
- Which is generated internally is more reliable if it has been subject to control and approval;
- Obtained directly by the Auditor (e.g. inspection of assets) is more reliable than evidence obtained indirectly (e.g. inquiry about the asset).


If the Auditor finds that the above criteria for evidence are not sufficiently met, he/she should detail this in the factual findings.

• **2 Obtaining an understanding of the terms and conditions of the Twinning Contract (Annex 2A - procedure 1.1)**

The Auditor obtains an understanding of the applicable Common Twinning Manual and of the terms and conditions of the Twinning Contract and he/she should pay particular attention to Annex 1 of the Twinning Contract, which contains the Description of the Action, Annex 2 (General Conditions) and Annex 4, which provides rules for procurement (including nationality and origin rules) by grant beneficiaries in the context of Twinning. Failure to comply with these rules makes expenditure ineligible for EU financing. These procurement rules apply to all Twinning contracts but depending on the legal basis for the Twinning Contract (funding source) nationality and origin rules may vary. The Auditor ensures with the Member State Partner (MSP) that the applicable nationality and origin rules are identified and understood. Applicable rules of nationality and origin are set out, for each legal basis, in Annex A2 to the Practical Guide²⁵ to contract procedures for external actions of the European Union.

If the Auditor finds that the terms and conditions to be verified are not sufficiently clear he should request clarification from the Beneficiary.

• **3 Selecting Expenditure for Verification (Annex 2A - procedures 3.1 – 3.7)**

 The expenditure claimed by the Member State Partner (MSP) in the financial report is presented as recommended in the standard template for the Twinning final report, annex C5 to the Common Twinning Manual. Expenditure headings can be broken down in expenditure subheadings.

Expenditure subheadings can be broken down into individual expenditure items or classes of expenditure items with the same or similar characteristics. The form and nature of the supporting evidence (e.g. a payment, a contract, an invoice etc) and the way expenditure is recorded (i.e. journal entries) vary with the type and nature of the expenditure and the underlying actions or transactions. However, in all cases expenditure items should reflect the accounting (or financial) value of underlying actions or transactions no matter the type and nature of the action or transaction concerned.

Value should be the principal factor used by the Auditor to select expenditure items or classes of expenditure items for verification. The Auditor selects high value expenditure items to ensure an appropriate coverage of expenditure.

• **4 Verification Coverage of Expenditure (Annex 2A - procedures 3.1 – 3.7)**

The Auditor applies the principles and criteria set out below when planning and performing the specific verification procedures for selected expenditure in Annex 2A (procedures 3.1 – 3.7).

²⁵ Practical Guide (applicable for Budget and EDF) and annexes for Budget and EDF see: http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/index_en.htm

Verification by the Auditor and verification coverage of expenditure items does not necessarily mean a complete and exhaustive verification of all the expenditure items that are included in a specific expenditure heading or subheading. The Auditor should ensure a systematic and representative verification. Depending on certain conditions (see further below) the Auditor may obtain sufficient verification results for an expenditure heading or subheading by looking at a limited number of selected expenditure items.

The Auditor may apply statistical sampling techniques for the verification of one or more expenditure headings or subheadings of the Financial Report. The Auditor examines whether 'populations' (i.e. expenditure subheadings or classes of expenditure items within expenditure subheadings) are suitable and sufficiently large (i.e. are made up of large numbers of items) for effective statistical sampling.

If applicable the Auditor should explain in the report of factual findings for which headings or subheadings of the Financial Report sampling has been applied, the method used, the results obtained and whether the sample is representative.

The Expenditure Coverage Ratio ('ECR') represents the total amount of expenditure verified by the Auditor expressed as a percentage of the total amount of expenditure reported by the Member State Partner (MSP) in the Financial Report and claimed by the Member State Partner (MSP) for deduction from the total sum of pre-financing under the Twinning Contract. This amount is reported in Annex V of the Twinning Contract. 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%.

• 5 Procedures to verify selected Expenditure (Annex 2A - procedures 3.1 – 3.7)

The Auditor verifies the selected expenditure items by carrying out procedures 3.1 - 3.7 listed in Annex 2A and reports all the factual findings and exceptions resulting from these procedures. Verification exceptions are all verification deviations found when performing the procedures set out in Annex 2A.

The Auditor quantifies the amount of the verification exception found and the potential impact on the EC contribution, should the Commission declare the expenditure item(s) concerned ineligible (where applicable taking into account the percentage of funding of the Commission and the impact on indirect expenditure (e.g. administrative costs)). The Auditor reports all exceptions found including the ones of which he cannot quantify the amount of the verification exception found and the potential impact on the EC contribution.

For example: if the Auditor finds an exception of 1.000€ with regard to procurement rules for a Twinning contract where the EC finances 60% of the expenditure and where administrative costs of 7% of total direct eligible expenses are foreseen, the Auditor reports an exception of 1.000€ and a financial impact of 642€ (1.000€ x 60% x 1.07).

Specific guidance for procedure 3.1.9 Compliance with Procurement, Nationality and Origin Rules

The Auditor should verify whether the expenditure for a selected item was incurred in accordance with the applicable procurement, nationality and origin rules by examining the underlying documents of the procurement and purchase process. Such documents relate to the opening of tenders, the assessment of the eligibility of tenderers and conformity of tenders, the evaluation of the offers and the decisions with regard to the awarding of the contract.

When examining these procurement documents the Auditor takes into account the risk indicators listed at the end of this Annex and he reports, if applicable, which of these indicators were identified.

Specific guidance for procedure 3.5 Contributions in kind to be deleted

The Auditor should verify that expenditure in the Financial Report does not include any contributions in kind. If contributions in kind are foreseen they must be indicated and valued in the Action budget. If this is not the case contributions in kind are not eligible. *Examples:* salaries of staff detached by a Ministry which is not part of the action or equipment and material received from organisations which do not participate in the Action.

RISK INDICATORS PROCUREMENT

- Inconsistencies in the dates of the documents or illogical sequence of dates. Examples:
 - Offer dated after the award of contract or before the sending of the invitations to tender
 - Offer of the winning tenderer dated before the publication date of the tender or dated significantly later than offers of other tenderers
 - Offers of different candidates participating in the same tenders all having the same date
 - Dates on documents not plausible/consistent with dates on accompanying documentation (e.g. date on the offer not plausible/consistent with the postal date on the envelope; date of a fax not plausible/consistent with the printed date of the fax machine)
 - Unusual similarities in offers of candidates participating in the same tender. Examples:
 - Same wording, sentences and terminology in offers of different tenderers
 - Same layout and format (e.g. font type, font size, margin sizes, indents, paragraph wrapping, etc) in offers of different tenderers
 - Similar letterhead paper or logos
 - Same prices used in offers of different tenderers for a number of subcomponents or line items
 - Identical grammatical, orthographical or typing errors in offers of different tenderers
 - Use of similar stamps and similarities in signatures
 - Financial statement or other information indicating that two tenderers participating in the same tender are related or part of a same group (e.g. where financial statements are provided, the notes to the financial statements may disclose ultimate ownership of the group. Ownership information may also be found in public registers for accounts)
 - Inconsistencies in the selection and award decision process. Examples:
 - Award decisions not plausible / consistent with selection and award criteria
 - Errors in the application of the selection and award criteria
 - A regular supplier of the beneficiary participates as a member of a tender evaluation committee
 - Other elements and examples indicating a risk of privileged relationship with tenderers:
 - A same tenderer (or small group of tenderers) is invited to different tenders with unusual frequency
 - A same tenderer (or small group of tenderers) wins an unusually high proportion of the bids
 - A tenderer is frequently awarded contracts for different types of goods or services
 - The winning tenderer invoices additional goods not foreseen in the offer (e.g. additional spare parts invoiced without clear justification, installation costs invoiced while not foreseen in the offer).
 - Other documentation, issues and examples indicating a risk of irregularities:
 - Use of photocopies instead of original documents
 - Use of pro-forma invoices as supporting documents instead of official invoices
 - Manual changes on original documents (e.g. figures manually changed, figures "tippexed", etc)
 - Use of non-official documents (e.g. letterhead paper not showing certain official and/or compulsory information such as commercial registry number, company tax number, etc.)
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The Auditor verifies that the Twinning management costs comply with the requirements as set forth in the Special Conditions of the Twinning contract and in section 5.8 of the Common Twinning Manual.

2.4.7 Contingencies

The Auditor verifies that contingencies do not exceed 2.5% of the total eligible costs (direct and indirect) of the Action (sections 5.6.3 of the Common Twinning Manual).

Annex 3 Model Report for an Expenditure Verification of a Twinning Contract

HOW TO USE THIS MODEL REPORT? All text highlighted in yellow in this model report is for instruction only and auditors should remove it after use. Information requested in the following form <.....> (e.g. <name of the MSP> must be completed by the auditor.

<To be printed on AUDITOR'S letterhead>

Report for an Expenditure Verification of a Twinning Contract

<Title of and number of the twinning contract >

Report of Factual Findings

<Name of contact person(s)>, < Position>

< Member State Partner's name>

<Address>

<dd Month yyyy>

Dear <Name of contact person(s)>

In accordance with the terms of reference dated <dd Month yyyy> that you agreed with us, we provide our Report of Factual Findings ("the Report"), with respect to the accompanying Financial Report for the period covering <dd Month yyyy - dd Month yyyy> (Annex 1 of this Report). You requested certain procedures to be carried out in connection with your Financial Report and the European Union financed Twinning Contract concerning <title and number of the contract>, the 'Twinning Contract'.

Objective

Our engagement was an expenditure verification which is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Twinning Contract between you and <the European Commission or the name of another contracting authority> the 'Contracting Authority'. The objective of this expenditure verification is for us to carry out certain procedures to which we have agreed and to submit to you a report of factual findings with regard to the procedures performed.

Standards and Ethics

Our engagement was undertaken in accordance with:

- International Standard on Related Services ('ISRS') 4400 *Engagements to perform Agreed-upon Procedures regarding Financial Information* as promulgated by the International Federation of Accountants ('IFAC);
- the *Code of Ethics for Professional Accountants* issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*;

Procedures performed

As requested, we have only performed the procedures listed in Annex 2A of the terms of reference for this engagement (see Annex 2 of this Report).

These procedures have been determined solely by the Contracting Authority and the procedures were performed solely to assist the Contracting Authority in evaluating whether the expenditure claimed by you in the accompanying Financial Report is eligible in accordance with the terms and conditions of the Twinning Contract.

Because the procedures performed by us did not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying Financial Report.

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Member state Partner (MSP) in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Sources of Information

The Report sets out information provided to us by you in response to specific questions or as obtained and extracted from your accounts and records

Factual Findings

The total expenditure which is the subject of this expenditure verification amounts to <xxxxxx> €.

The Expenditure Coverage Ratio is <xx%>. This ratio represents the total amount of expenditure verified by us expressed as a percentage of the total expenditure which has been subject of this expenditure verification. The latter amount is equal to the total amount of expenditure reported by you in the Financial Report and claimed by you for deduction from the total sum of pre-financing under the Twinning Contract as per your Request for Payment of <dd Month yyyy>.

We report the details of our factual findings which result from the procedures that we performed in Chapter 2 of this Report.

Use of this Report

This Report is solely for the purpose set forth in the above objective.

This report is prepared solely for your own confidential use and solely for the purpose of submission by you to the Contracting Authority in connection with the requirements as set out in Article 15 of the General Conditions of the Twinning Contract. This report may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

The Contracting Authority is not a party to the agreement (the terms of reference) between you and us and therefore we do not owe or assume a duty of care to the Contracting Authority who may rely upon this expenditure verification report at its own risk and discretion. The

Contracting Authority can assess for itself the procedures and findings reported by us and draw its own conclusions from the factual findings reported by us.

The Contracting Authority may only disclose this Report to others who have regulatory rights of access to it in particular the European Commission [*Delete if the Commission is the Contracting Authority*], the European Anti Fraud Office and the Court of Auditors.

This Report relates only to the Financial Report specified above and does not extend to any of your financial statements.

We look forward to discussing our Report with you and would be pleased to provide any further information or assistance which may be required.

Yours sincerely

<dd Month yyyy>,

<Name of the Auditor>

• 1 Information about the Twinning Contract

[Chapter 1 should include a brief description of the Twinning Contract and the Action, the Member State Partner (MSP)/ implementing structure and key financial/budget information. (maximum 1 page)]

• 2 Procedures performed and Factual Findings

We have performed the specific procedures listed in Annex 2A of the terms of reference for the expenditure verification of the Twinning Contract ('ToR'). These procedures cover:

- 1 General Procedures
- 2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review
- 3 Procedures to verify selected Expenditure

We have applied the rules for selection of expenditure and the principles and criteria for verification coverage as set out in Annex 2B (sections 3 and 4) of the ToR for this expenditure verification.

[Explain here difficulties or problems encountered if any]

The total expenditure verified by us amounts to <xxxx> € and is summarised in the table below. The overall Expenditure Coverage Ratio is <xx%>.

[Provide here a summary table of the Financial Report in Annex 1, presenting for each (sub) heading the total expenditure amount reported by the Member State Partner (MSP), the total expenditure amount verified and the percentage of expenditure covered]

We have verified the selected expenditure as shown in the above summary table and we have carried out, for each expenditure item selected, the verification procedures specified at point 3.1 to 3.7 of Annex 2A of the ToR for this expenditure verification.

We report our factual findings resulting from these procedures below :

• 1 General Procedures

1.1 Terms and Conditions of the Twinning Contract

We have obtained an understanding of the terms and conditions of this Twinning Contract in accordance with the guidelines in Annex 2B (section 2) of the ToR.

[Describe factual findings and specify errors and exceptions. Procedures 1.1 - 1.5 in Annex 2A]

- 1.2 Financial Report for the Twinning Contract
- 1.3 Rules for Accounting and Record keeping
- 1.4 Reconciling the Financial Report to the Member State Partner's (MSP) Accounting System and Records
- 1.5 Exchange Rates

<ul style="list-style-type: none">• 2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review

- 2.1 Budget of the Twinning Contract
- 2.2 Amendments to the Budget of the Twinning Contract

[Describe factual findings and specify errors and exceptions. Procedures 2.1 – 2.2 in Annex 2A]

<ul style="list-style-type: none">• 3 Procedures to verify selected Expenditure
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We have reported further below all the exceptions resulting from the verification procedures specified at point 3.1 – to 3.7 of Annex 2A of the ToR for this expenditure verification insofar these procedures did apply to the selected expenditure item.

We have quantified the amount of the verification exceptions found and the potential impact on the EC contribution, should the Commission declare the expenditure item(s) concerned ineligible (where applicable taking into account the percentage of funding of the Commission and the impact on indirect expenditure (e.g. administrative costs)). We have reported all exceptions found including the ones of which we cannot quantify the amount of the verification exception found and the potential impact on the EC contribution.

[Specify for which expenditure amounts / items exceptions between facts and criteria were found, the nature of the exception – this means which of the specific condition or conditions described at point 3.1 to 3.7 of Annex 2A of the ToR were not respected. Quantify the amount of the verification exception found and the potential impact on the EC contribution, should the Commission declare the expenditure item(s) concerned ineligible]

3.1 Eligibility of Costs

We have verified, for each expenditure item selected, the eligibility criteria set out at procedure 3.1 in Annex 2A of the ToR for this expenditure verification.

[Describe factual findings and specify errors and exceptions. Procedure 3.1 in Annex 2A: eligibility of costs and the eligibility criteria (1) to (9). Example: we found that an expenditure amount of 6.500 € included in subheading 3.2 (furniture, computer equipment) of the Financial Report was not eligible. An amount of 2.000€ related to expenditure incurred outside the implementation period. Supporting evidence was not available for 3 transactions totalling 1.200€. The required procurement rules for purchases of office computers for 3.300€ were not respected. (Note: relevant details such as accounting record references or documents should be provided).]

3.2 Eligibility of Direct Costs (Article 14.2)

3.3 Provisions of changes in prices (2,5%)

3.4 Twinning Management Costs

3.5 Contributions in kind (Article 14.5)

The Auditor verifies that costs in the Financial Report do not include contributions in kind. Contributions in kind are not eligible costs.

3.6 Non-eligible costs (Article 14.6)

3.7 Revenues of the Action

[Describe factual findings and specify errors and exceptions. Procedures 3.2 - 3.7 in Annex 2A]

• Annex 1 Financial Report for the Twinning Contract

[Annex 1 should include the Member State Partner's (MSP) financial report for the Twinning Contract which has been the subject of the verification. The financial report should be dated and indicate the period covered.]

• Annex 2 Terms of Reference Expenditure Verification

[Annex 2 should include a signed and dated copy of the terms of reference for the expenditure verification of this Twinning Contract including Annex 1 (information about the Twinning Contract) and Annex 2A (Listing of the specific procedures to be performed).]

ANNEX A7 Special Financial Annex

1. The Project Budget (Annex A3 to the Twinning Contract)

All Twinning contracts comprise a Twinning work plan, accompanied by a detailed budget, respectively annexes A1 and A3 to the Twinning contract. Expenditures listed in the budget must correspond to the activities listed in the Twinning work plan.

All activities foreseen in the framework of the Twinning project, irrespective of whether they are carried out under the responsibility of the BC or of the MS, should be listed. The only activities to which a sum is allocated in the budget are those for which financing is allowed from the EU programme, and those for which cofinancing from the BC is provided.

2. Changes to a Twinning Contract

The work plan of a Twinning project needs to be prepared and agreed in detail before the twinning project is launched, in order to provide objective grounds for the funding requested. However, in practice, with many different activities taking place, a Twinning project is subject to all sorts of unforeseen events and may need to be adjusted in the course of implementation. A certain degree of flexibility is therefore necessary. **Although there should be no change to the mandatory results defined in the work plan the means of achieving these may be adapted to circumstances.**

Twinning contract modifications can only be made within the execution period of the Contract. The modifications will only apply to subsequent implementation and cannot apply retroactively.

It is hereby reminded that the breakdown of costs in a Twinning budget (Annex A3) follows the logic of the work plan (Annex A1) (RTA, delivery of a seminar, expert mission on a particular topic, elaboration of training material, etc.). In other terms, the budget must follow an activity based budget format and under normal circumstances any change in the work plan will entail a corresponding change in the budget.

The following section therefore firstly details (1) the requirements for all changes to a Twinning Contract and thereafter (2) the more specific rules regarding budgetary changes.

(1) Changes in General