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**Report for an Expenditure Verification
of a Grant Contract**
**External Actions of the European Union
for Project**
“Living History – Living Nature II”
CRIS No: IPA/2010/DN023657/CN357019

Prilep, January 2018

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REPORT OF FACTUAL FINDINGS

To
Municipality of Novaci –public entity
- Novaci

Dear,

In accordance with the terms of the mutual agreement on 04th May 2017 year we submitted to You our Report on factual findings regarding Your accompanying financial statements for the period of 21.05.2015 to 20.03.2017. You requested certain procedures to be carried out concerning the financial activity report that European Union finance with the grant agreement number IPA/2010/DN023657/CN357019 regarding to the project „Living History –Living Nature II”.

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 Grant Contract between You and *The Delegation of the European Union* 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 for the period of 21.05.2015 to 20.03.2017.

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 are 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 Grant 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.

If we performed additional procedures or if we performed an audit or review of the financial statements of the Beneficiary in accordance with International Standards on Auditing, maybe we could have noticed another matters about which we would have 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 provided for this Project amounted to 293.036,00 euros and relate to the period of 21.05.2015 to 20.03.2017, of which 249.080,60 euros or 85% funded by the European Union, 43.955,4 euros or 15% funded by the Ministry for Local Government.

Verification of costs will be done for period of 21.05.2015 to 20.03.2017.

The first funds that are transferred to the account of the Project „ Living History – Living Nature II " amounted 10.035,06 euros on 31th July 2015 from Ministry for Local Government.

The second funds that are transferred to the account of the Project „ Living History – Living Nature II " amounted 203.183,59 euros on 09th September 2015 from the European Union.

The third funds transferred to the account of the Project „ Living History – Living Nature II " amounted 6.255 euros on 14th June 2017 from Municipality of Novaci.

The forth funds transferred to the account of the Project „ Living History – Living Nature II " amounted 69.191,00 euros on 26th December 2017 in amount of 69.191,00 euros from the Macedonian Bank for Support and Development.

We report the details of our factual findings which result from the procedures that we performed, listed below in this report.

Use of this Report

This report is only for the purpose set out above.

Company for audit
PELAGONIAN AUDIT HOUSE Ltd. Prilep

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 Grant 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, the European Anti Fraud Office and the European Court of Auditors.

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

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

Yours sincerely



Pelagonian Audit House
Ltd. Prilep
Manager and Certified Auditor

Pecko Risteski

02 February 2018
Prilep

str. „Dragan Dimeski” No.19- Prilep
Republic of Macedonia

1. Information about the Grant Contract

The parties that concluded the Grant Contract CRIS No: IPA/2010/DN023657/CN357019 are:

- The European Union, represented by the Delegation of the European Union to the Former Yugoslav Republic of Macedonia, with its office at. Sv.Kiril i Metodij 52b, 1000 Skopje (the contracting authority)
of the one part
- Municipality of Novaci – Public entity Novaci

of the other part.

The purpose of this contract is the award of a grant by the contracting authority for the implementation of the action entitled: Living History – Living Nature II/LHi –LNA II.

The customer will be awarded the grant on the terms and the conditions set out in the Contract, which consists of these special conditions and the annexes, which the Beneficiary hereby declares it has noted and accepted.

The main objective of the project is the realization of common interventions by the partner in order for them to jointly promote and unify the historical and natural resources of the cross border area and present them in a form that can reinforce local-driven sustainable development. This will be mainly achieved through the documentation and exploration of the connection between the historical monument, and between the natural sites of each area and the revealing of their dynamics as valuable attraction sites.

Specific objectives of the project is to address the need for coordinated actions that will valorize the monuments and natural places, by bringing them out to the public with new means of representation. This is mainly achieved through the involvement of artist and the creation of relative works of art.

The total cost of the activities is estimated at 293.036,00 euros. The Grant Contract stipulated that the Contracting Authority will undertake to allocate a maximum of EUR 249.080,60 as participation towards realization of the project which is equivalent of 85.00% of the estimated total eligible costs. Contribution of 15.00 % will be prefinanced by the Municipality of Novaci and further refunded by the Ministry of Local self government as agreed for the program.

The implementation period of the project was set to be 15 months, starting from 21 May 2015 to 20 august 2016, but it has been extended to 20 march 2017.

The structure of funds received by Contracting Authority is set out in the following table:

		Amounts expressed in EUR
1.	Funds defined by the Contract	249.080,6
2.	State co- financing	43.955,4
	TOTAL	293.036,00

The period for covering the Action is on 21 May 2015 -20 March 2017.

The pre-financing payment was made on 31th July 2015 in amount of 10.035,06 euros on from Municipality of Novaci, on 09th September 2015 in amount of 203.183,59 € from the European Union, on 14th June 2017 in amount of 6.254,60 euros from the Municipality of Novaci, and on 26th December 2017 in amount of 69.191,00 euros from the Macedonian Bank for Support and Development.

The total expenditure which is the subject of this expenditure verification amounts to 288.320,20 €.

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 Grant Contracts concerning “Living History, Living Nature II – LHI - LNA II . 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.

The total expenditure verified by us amounts to 288.320,20 € and is summarized in the table below. The overall Expenditure Coverage Ratio is 100 %.

Expenditure description		Amount reported by the Beneficiary (in euro)	Amount per adendum (in euro)	Amount spent by the user (in euro)	Amount verified by the Auditor (in euro)	Percentage of expenditure covered
1.	Human Resources					
1.2.1	Project Manager	15.000,00	15.000,00	15.023,68	15.023,68	100%
1.2.2	Financial manager	6.750,00	6.750,00	6.749,99	6.749,99	100%
1.2.3	Project assistant	9.000,00	9.000,00	9.000,02	9.000,02	100 %
1.2.4	Visibility officer	7.500,00	7.500,00	7.500,00	7.500,00	100 %
	<i>Subtotal Human Resources</i>	38.250,00	38.250,00	38.273,69	38.273,69	100%
2.	2. Overhead					
2.1	Vehicle costs	750	750	590,25	590,25	79 %
2.2	Office rent	0	0			
2.3	Consumables - office supplies	900	900	793,31	793,31	88%
2.4	Other services (tel/fax, electricity/heating, maintenance)	0	0			
	Subtotal Overhead	1.650	1.650	1.383,56	1.383,56	84 %
3.	3. Travel and accomodation					
3.1	Travel (5)					
3.1.1	Travel Greece-the former Yugoslav Republic of Macedonia					
3.1.1.1	Project Meetings - Novaci Almopia (action 1.3.)	64	64	51,48	51,48	80%
3.1.1.2	Artistic competition - 10 participants of the school (action 5.1.)	128	128	0		
3.1.2	Travel Greece-the former Yugoslav Republic of Macedonia (Airplane tickets)	0	0	0		

3.3	Accommodation					
3.3.1	Hotel accommodation Greece					
3.3.1.1	Project meetings - 3 persons (action 1.3.)	240	240	0		
3.3.2	Hotel accommodation former Yugoslav Republic of Macedonia					
3.4	Daily subsistence allowances (6)					
3.4.1	Daily allowance Greece					
3.4.1.1	DSA Project Meetings (action 1.3.)	66	66	0		
3.4.2	Daily allowance former Yugoslav Republic of Macedonia	0	0	0		
	Subtotal Travel and accommodation	498	498	51,48	51,48	10%
4.	4. External Expertise and Services (7)					
4.1	Publications (8)					
4.2	Studies, research (8)					
4.3	Expenditure verification	3.000	3.000	3.000	3.000	100%
4.4	Evaluation costs					
4.5	Translation, interpreters					
4.5.1	Fee for translator for Artistic competition (action 5.1.)	770	770	692,99	692,99	90 %
4.6	Financial services (bank guarantee costs etc.)					
4.7	Costs of conferences/seminars (8)					
4.7.1	Kick off meeting (action 1.3)	2.500	2.500	2.460,74	2.460,74	98 %
4.7.2	Close out conference (action 2.3.)	3.250	3.250	3.223,54	3.223,54	99%
4.7.3	Artistic competition (action 5.1.)	9.680	9.680	9.604,50	9.604,50	99%

4.7.4	Mobile application (action 5.2.)	15.000	15.000	14.981,25	14.981,25	100%
4.7.5	4.7.5. Training seminars (action 5.3.)	4.600	4.600	4.594,91	4.594,91	100 %
4.7.6	Cross roads tours (action 5.4) CGI = PLANINARSKA TURA = 2 GUIDES X 5 MONTHS X 250 EURO = 2500 EURO	11.500	11.500	11.470,52	11.470,52	100 %
4.8	Visibility actions (9) (communication package, and reporoduction of information materials)	9.951	9.951	9.897,28	9.897,28	100 %
4.8.1	Project portal (action 2.2.) CGI = 1000	1.000	1.000	994,62	994,62	100 %
4.9	Other (pls specify)	0	0			
4.9.1	Setting up of 5 sets of tables and benches (action 4.1.)	2.000	2.000	1.997,39	1.997,39	100 %
4.9.2	Mapping and setting up signs	17.724	17.724	17.669,33	17.669,33	100 %
	Subtotal External Expertise and Services	80.975	80.975	80.595,22	80.595,22	100%
5.	Equipment (10)					
5.1	Purchase or rent of vehicles (action 5.1.)	1.400	1.400	1.369,44	1.369,44	98%
5.2	Furniture, computer equipment					
5.3	Machines, tools...					
5.4	Spare parts/equipment for machines, tools					
5.5	Other (please specify)					
	Subtotal Equipment and supplies	1.400	1.400	1.369,44	1.369,44	98%
6.	Investments / Infrastructure					
6.1	Elaboration of detailed Works design					
6.1.1	Elaboration of the	1.381	1.381	1.381,00	1.381,00	

	reconstruction of the interior of Church St. Dimitrija in Gradeshnica					100%
6.1.2	Elaboration of the works for Recreation park Konjarka	6.504	6.504	6.489,05	6.489,05	100%
6.1.3	Elaboration of works for demining	1.000	1.000	1.000,00	1.000,00	100%
6.2	Works	0	0			
6.2.1	Reconstruction of the interior of Church St. Dimitrija in Gradeshnica	38.600	38.600	38.281,23	38.281,23	99%
6.2.2	Construction of the Recreation park Konjarka	88.280	88.280	88.034,94	88.034,94	100%
6.2.3	Demining	9.208	9.208	9.179,52	9.179,52	100%
6.3	Supervision of works					
6.3.1	Supervision of reconstruction of the Church St. Dimitrija	4.739	4.739	4.728,52	4.728,52	100%
6.3.2	Supervision of construction of the Recreation park Konjarka	2.138	2.138	2.119,68	2.119,68	99%
6.3.3	Supervision of demining	573	573	562,53	562,53	98%
6.4	Other (pls specify)	0	0	0	0	
	Subtotal Investments / Infrastructure	152.423	152.423	85.603,52	85.603,52	56%
7.	Other					
3.2	Local transportation (action 1.3., action 2.3., action 5.1., action 5.3.	3.000	3.000	2.471,51	2.471,51	82%
3.3.2.1	Artistic competition - action 5.1. - 24 participants x 7 nights	8.400	8.400	7.634,31	7.634,31	91%
3.3.2.2	Training seminars - action 5.3. - 44 participants x 1 night	2.200	2.200	2.336,90	2.336,90	106 %

3.4.2.1	DSA Artistic competition (action 5.1.) - 24 participants x 7 days	3.360	3.360	2.425,62	2.425,62	72%
3.4.2.2	DSA Training seminars (action 5.3.) - 44 participants	880	880	0	0	
	Subtotal Other	17.840	17.840	14.868,34	14.868,34	83,34%
	Total cost of the action	293.036,00		288.320,20	98%	

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 3.8 of Annex 2A of the ToR for this expenditure verification.

We are reporting our factual findings resulting from these procedures below:

- There are changes to amount reported by the Beneficiary and amount spent by the user. Total cost of the action are 293.036.00 euros. Of these funds were spent 288.320,10 euros or 98%.
- On the day of the audit report there are no unsettled obligations. The last payment were realized on January 29, 2018 as follows:
 - Expenditure verification (audit) an amount of 3.000 euros. We as an audit company have not issued an invoice through the system of the Public Revenue Office because the audit agreement was concluded after the completion of the Project (on 22 march 2017), and the audit process itself ended with the date of issuance of this audit report. Precisely because of this, the audit costs remain as a liability for the payment of the Municipality of Novaci, which is stated in our mutual agreement with the Municipality.
 - Construction of the Recreation park Konjarka (to the contractor Stenton Gradba Ltd) an amount of 66.171,39 euros.

1 General Procedures

1.1 Terms and Conditions of the Grant Contract

We have obtained an understanding of the terms and conditions of this Grant Contract in accordance with the guidelines in Annex 2B (section 2) of the ToR. We have obtained and reviewed the Report (which included a narrative and a financial section) in accordance with Article 2.1 of the General Conditions.

1.2 Financial Report for the Grant Contract

We have verified that the Financial Report complies with the following conditions of Article 2 of the General Conditions the Grant Contract:

- The Financial Report conform to the model in Annex VI of the Grant Contract;

- The Financial Report cover the Action as a whole, regardless of which part of it is financed by the Contracting Authority;
- The financial report is drawn up in the language of the Grant Agreement;
- There are no transfers of ownership of equipment, vehicles and supplies in accordance with Article 7.5 of the General Conditions of the Grant Contract.
- The appropriate certificates of origin are applied to the financial report.
- No factual findings have arisen from this procedure

1.3 Rules for Accounting and Record keeping

We have examined – when we performed 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 the Grant Contract:

- The accounts kept by the Beneficiary for the implementation of the Action are accurate and up-to-date;
- The Beneficiary has a double-entry book-keeping system;
- The accounts and expenditure relating to the Action are easily identifiable and verifiable;
- No factual findings have arisen from this procedure

1.4 Reconciling the Financial Report to the Beneficiary's Accounting System and Records

We have reconciled the information in the Financial Report to the Beneficiary's accounting system and records (e.g. trial balance, general ledger accounts, sub ledgers etc.). No factual findings have arisen from this procedure.

1.5 Exchange Rates

The amounts of expenditure incurred in a currency other than the Euro are converted at the exchange rate using the average of the rates published in InforEuro for the months covered by the Interim Financial Report, according to Article 15.8 of the General Conditions. No factual findings have arisen from this procedure.

1.6 Simplified Cost Options

During our audit procedures we have got an understanding of the conditions set out in:

- **Article 2.1.c) of the General Conditions**, in which article stipulates that in case of simplified cost options the Report for the Action (narrative and financial) shall provide the qualitative and quantitative information needed to demonstrate the fulfilment of the conditions for reimbursement established in the Special Conditions;
- **Articles 14.3 to 14.5** of the General Conditions; provisions for simplified cost options.

If simplified cost options apply, the Auditor performs the specific procedures set out at 4.1.(2) below.

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

2.1 Budget of the Grant Contract

We have carried out an analytical review of the expenditure headings in the Financial Report and verified that the budget in the Financial Report corresponds with the budget of the Grant Contract and the expenditure incurred was indicated in the budget of the Grant Contract.

No factual findings have arisen from this procedure.

We have verified that expenditures represented in the budget in the Financial Report are in the limits of those represented in the budget of the Grant Contract.

2.2 Amendments to the Budget of the Grant Contract

On the 12- th of August 2016 an official Request for Addendum, was submitted to the Contract Authority, the European Union represented by the Delegation of the European Union to the Former Yugoslav Republic of Macedonia.

This addendum refers to the Grand Contract actions, budget plans and overall activities and the status of their implementation.

Article 2 – Impelementation period of the Action:

The implementation period of the Action, as laid down in Annex I is 15 months, is replaced as follows:

- The implementation period of the Action, as laid down in Annex I is 22 months

Article 3 – Financing the Action:

- The staff costs will not be eligible, for the additional 7 months.
- All other terms and conditions of the Contract remain unchanged.

The total eligible cost for the Action remains unchanged and it is in the amount of € 293.036,00

3 Procedures to verify selected Expenditure

We have verified all the expenditures reported in the Financial Report and we are reporting that there are no exceptions resulting from the verification procedures specified at point 3.1- 3.8 of Annex 2A of the ToR.

3.1 Eligibility of Costs

We have verified, for each expenditure item selected, the eligibility criteria set out as it follows bellow:

(1) Actual cost incurred

We have verified that the expenditure for the selected item was actually incurred by and pertains to the Beneficiary. We have examined the supporting documents (e.g. invoices, contracts) and proof of payment. We have also examined the proof of work done, goods received or services rendered and we verified the existence of the assets.

Also we confirm that there are costs that occurred during the implementation of the project which have not yet been paid, but accepted as actual costs incurred because there is real commitment, purchase order, invoice for services rendered or goods provided during the implementation of the project. These costs are listed in the financial report (Annex VI) together with the estimated date of payment. (Article 14.1.a).

(2) Simplified cost options

We have verified which items are applied to these options, how much they cost, and which qualitative and quantitative information were used to determine and justify the expenditure (such as number of employees, number of purchased items, the type of expenditure and operations).

We have verified that the total costs listed in the financial report have been properly established.

(3) Cut-off - Implementation period

We have verified that the expenditure for the selected item was incurred during the implementation period of the Action.

(4) Budget

We have verified that the expenditure for a selected item was indicated in the Action budget.

(5) Necessary

We have verified whether it is plausible that the expenditure for the selected item was necessary for the implementation of the Action and that it incurred for the contracted activities of the Action. We did this by examining the nature of the expenditure with the supporting documents.

(6) Records

We have verified that the expenditure for a selected item is recorded in the Beneficiary's accounting system and was recorded in accordance with the applicable accounting standards of the country where the Beneficiary is established and the Beneficiary's usual cost accounting practices.

(7) Applicable legislation

We have verified that the expenditure complies with the requirements of tax and social security legislation where this is applicable (for example: employers part of taxes, pensions premiums and social security charges).

(8) Justified

We have verified that the expenditure for a selected item is substantiated by evidence (in accordance with section 1 of Annex 2B, Guidelines for Specific Procedures to be performed) and notably the supporting documents as specified in Article 16.8 and 16.9 of the General Conditions of the Grant Contract.

(9) Valuation

We have verified 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.

(10) Classification

We have examined the nature of the expenditure for a selected item and have verified that the expenditure item has been classified under the correct (sub)heading of the Financial Report.

(11) Compliance with Procurement, Nationality and Origin Rules

We have examined which procurement, nationality and origin rules apply for a certain expenditure (sub)heading, a class of expenditure items or an expenditure item. We have verified whether the expenditure was incurred in accordance with such rules by examining the underlying documents of the procurement and purchase process. We did not find any issues of non-compliance with

procurement rules. While examining the procurement documentation we took into account the risk indicators listed in Annex 2B and we did not found any of those indicators.

3.2 Eligibility of Direct Costs

As direct cost are covered the following items in the financial report:

(3.2.1) Staff costs

Paid staff costs in the period 21.05.2015 – 20.03.2017 was in the amount of 38.273,69 € and they participate with 13,27% of actual costs incurred to carry out activities in the reporting period.

(3.2.2) Travel and accomodation

Paid travel and accomodation costs in the period 21.05.2015 – 20.03.2017 was in the amount of 51,48 €.

(3.2.3) Costs for equipment and supplies

Paid cost for equipment and supplies in the period 21.05.2015 – 20.03.2017 was in the amount of 1.369,44 € and they participate with 0,08% of actual costs incurred to carry out activities in the reporting period.

(3.2.4) Cost of investments/infrastructure

The cost of investments/infrastructure in the period 21.05.2015 – 20.03.2017 was provided in the amount of 151.778,47 € and they participate with 52,64% of initial budget.

(3.2.5) Cost deriving directly form the requirements of the Contract including financial service cost

Paid cost Cost deriving directly form the requirements of the Contract including financial service cost materials in the period 21.05.2015-20.03.2017 was in the amount of 96.847,12 € and they participate with 33,59% of actual costs incurred to carry out activities in the reporting period.

3.3 Provision for Contingency Reserve

We have verified that the there is no provision for contingency reserve of 5% of the direct eligible costs of the Action.

3.4 Indirect costs

We have verified that there is no indirect costs it is set in amount of 7% of the total amount of eligible direct costs of the Action.

3.5 In kind Contributions

We have verified that costs in the Financial Report do not include contributions in kind.

3.6 Non-eligible costs

We have verified that the expenditure for the selected item does not concern a non-eligible cost as described in Article 14.9 of the General Conditions. We have verified that the expenses do not include taxes, including currency exchange losses.

3.7 Revenues of the Action

We have examined 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 Beneficiary in the context of the Action such as for example interest earned) have

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been allocated to the Action and disclosed in the Financial Report. For this purpose we have inquired with the Beneficiary and examined the documentation obtained from the Beneficiary.



Pelagonian Audit House
Ltd. Prilep
Manager and Certified Auditor

Pecko Risteski

A circular stamp with the text "РЕВИЗОРСКА КУКА" (Auditor's Seal) and "ПЕЛАГОНИЈСКА КУКА" (Pelagonian Audit House) around the perimeter. In the center, there is a signature and the text "ДОО" (DOO).

Annex 1 Financial Report for the Grant Contract

Contract IPA/2010/DN023657/CN357019

Implementation period of the
contract (21.05.2015-
20.03.2017)

Final financial
report:
period
(21.05.2015-
20.03.2017)

Final financial report: period (21.05.2015-20.03.2017)	Budget as per contract/addendum				Reallocat ion	Expenditures incurred							Variations in comparison with initial budget/addendum				
	Expenditures	Unit	# Units	Unit cost (in EUR)	Costs (in EUR)	allowed reallocati on (article 9.2 of the General Conditio ns)	Per currency		Total for the period in EUR		Cumula ted costs (before current report) (in EUR)		Cumulated costs (from start of implementation to present report included) (in EUR)		In absolute value in EUR	In %	Explanation for all variations
							Name of currency n°1										
							Exchange rate of the period (21.05.2015-20.03.2017): 61,3333										
						# Units	Unit cost (in currency n°1)	Total cost (in currency n°1)	Total cost (in EUR)	Units total # for all currencie s	Total cost of the period (in EUR)						
		(a)	(b)	(a)*(b)		(d _i)	(e _i)	(f1)=(d1)*(e1)	(g _i)= (f _i)*(Ex- rate ₁)	Sum (d ₁ →d _n)	(h)= Sum (g ₁ →g _n)	(i)	(h)+(i)				
1. Staff costs (4)																	
1.1 Salaries (gross salaries including social security charges and other related costs, local public employees)																	
1.1.1 Public employees no additionality																	
1.1.1.2	Per month																

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Staff Category 1															
1.1.1.2 Staff Category 2	Per month														
Subtot.1.1.1+li imited to 15 % of 8.Tot elig.costs (no addit.)															
1.1.2 Public employee with additional. (cost fully eligible)															
1.1.1.2 Staff 1	Per month														
1.1.1.2 Staff 2	Per month														
1.2 Salaries (gross salaries including social security charges and other related costs, local private employees) ⁴															
1.2.1.Staff 1 - Project Manager	Per month	15,00	1.000,00	15.000,00		15,00	61.430,12	921.451,87	15.023,68	15	15.023,68		15.023,68	-23,68	-0,16%
1.2.2 Staff 2 - Financial Manager - 50%	Per month	7,50	900,00	6.750,00		15,00	27.599,94	413.999,16	6.749,99	15	6.749,99		6.749,99	0,01	0,00%
1.2.3. Staff 3 - Project Assistant -	Per month	15,00	600,00	9.000,00		15,00	36.800,06	552.000,93	9.000,02	15	9.000,02		9.000,02	-0,02	0,00%
1.2.4. Staff 4 - Visibility officer	Per month	15,00	500,00	7.500,00		15,00	30.666,65	459.999,75	7.500,00	15	7.500,00		7.500,00	0,00	0,00%
1.3 Salaries (gross salaries including social security charges and other related costs, expat/int. staff)															
1.3.1.Staff 1	Per month														
1.3.2	Per month														

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Staff 2															
Subtotal Staff Costs				38.250,00				2.347.451,71	38.273,69		38.273,69	0,00	38.273,69	-23,69	
2. Overhead															
2.1 Vehicle costs	Per month	15	50	750,00		15	2.413,47	36.201,98	590,25	15	590,25		590,25	159,75	21,30%
2.2 Office rent	Per month							0,00							
2.3 Consumables - office supplies	Per month	15	60	900,00		15	3.243,75	48.656,32	793,31	15	793,31		793,31	106,69	11,85%
2.4 Other services (tel/fax, electricity/heating, maintenance)	Per month			0,00											
Subtotal Overhead				1.650,00				84.858,30	1.383,56		1.383,56	0,00	1.383,56	266,44	
3. Travel and accommodation															
3.1 Travel (5)															
3.1.1 Travel Greece-the former Yugoslav Republic of Macedonia				0,00											
3.1.1.1. Project Meetings - Novaci Almopia (action 1.3.)	Per km	320	0,2	64,00		257,4	12,27	3.157,44	51,48		51,48		51,48	12,52	19,56%
3.1.1.2. Artistic competition - 10 participants of the school (action 5.1.)	per km	640	0,2	128,00		640	0,00	0,00	0,00		0,00		0,00	128,00	100,00%
3.1.2 Travel Greece-the former Yugoslav Republic of Macedonia (Airplane tickets)				0,00											
3.3				0,00											

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Accommodation														
3.3.1 Hotel accommodation Greece	Per night			0,00										
3.3.1.1. Project meetings - 3 persons (action 1.3.)	Per night	3	80	240,00		3		0,00	0,00		0,00		0,00	240,00 100,00%
3.3.2 Hotel accommodation former Yugoslav Republic of Macedonia	Per night			0,00										
3.4 Daily subsistence allowances (6)				0,00										
3.4.1 Daily allowance Greece	Per day			0,00										
3.4.1.1. DSA Project Meetings (action 1.3.)	Per day	3	22	66,00		3		0,00	0,00		0,00		0,00	66,00 100,00%
3.4.2 Daily allowance former Yugoslav Republic of Macedonia	Per day			0,00										
<i>Subtotal Travel and accommodation</i>				498,00				3.157,44	51,48		51,48	0,00	51,48	446,52
4. External Expertise and Services (7)														
4.1 Publications (8)														
4.2 Studies, research (8)														
4.3 Expenditure verification	per service	1	3000	3.000,00		1	184.500,00	184.500,00	3.008,15		3.008,15		3.008,15	-8,15 -0,27%
4.4 Evaluation costs				0,00										
4.5				0,00										

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Translation, interpreters															
4.5.1. Fee for translator for Artistic compition (action 5.1.)	per day	7	110	770,00		7	6.071,91	42.503,36	692,99		692,99		692,99	77,01	10,00%
4.6 Financial services (bank guarantee costs etc.)				0,00											
4.7 Costs of conferences/s eminars (8)				0,00											
4.7.1 Kick off meeting (action 1.3)	per day	1	2500	2.500,00		1	150.925,30	150.925,30	2.460,74		2.460,74		2.460,74	39,26	1,57%
4.7.2. Close out conference (action 2.3.)	per day	1	3250	3.250,00		1	197.710,35	197.710,35	3.223,54		3.223,54		3.223,54	26,46	0,81%
4.7.3. Artistic competition (action 5.1.)	per event	1	9680	9.680,00		1	589.075,68	589.075,68	9.604,50		9.604,50		9.604,50	75,50	0,78%
4.7.4. Mobile application (action 5.2.)	per aplication	1	15000	15.000,00		1	918.849,50	918.849,50	14.981,25		14.981,25		14.981,25	18,75	0,13%
4.7.5. Training seminars (action 5.3.)	per service	1	4600	4.600,00		1	281.820,99	281.820,99	4.594,91		4.594,91		4.594,91	5,09	0,11%
4.7.6. Cross roads tours (action 5.4)	per service	1	11500	11.500,00		1	703.524,84	703.524,84	11.470,52		11.470,52		11.470,52	29,48	0,26%
4.8. Visibility actions (9) (communicatio n package, and reporoduction of information materials)	per service	1	9951	9.951,00		1	607.032,84	607.032,84	9.897,28		9.897,28		9.897,28	53,72	0,54%
4.8.1. Project portal (action 2.2.)	per portal	1	1000	1.000,00		1	61.003,33	61.003,33	994,62		994,62		994,62	5,38	0,54%
4.9 Other (pls specify)				0,00											
4.9.1. Setting up of 5 sets of tables and	per set	5	400	2.000,00		5	24.501,30	122.506,52	1.997,39		1.997,39		1.997,39	2,61	0,13%

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benches (action 4.1.)															
4.9.2. Mapping and setting up signs	per action	1	17724	17.724,00		1	1.083.718,32	1.083.718,3 2	17.669,33		17.669,33		17.669,33	54,67	0,31%
<i>Subtotal External Expertise and Services</i>				80.975,00				4.943.171,0 4	80.595,22		80.595,22	0,00	80.595,22	387,93	
5. Equipment (10)															
5.1 Purchase or rent of vehicles (action 5.1.)	Per vehicle	2	700	1.400,00		2	41.996,14	83.992,27	1.369,44		1.369,44		1.369,44	30,56	2,18%
5.2 Furniture, computer equipment				0,00											
5.3 Machines, tools...				0,00											
5.4 Spare parts/equipme nt for machines, tools				0,00											
5.5 Other (please specify)				0,00											
<i>Subtotal Equipment and supplies</i>				1.400,00				83.992,27	1.369,44		1.369,44	0,00	1.369,44	0,00	
6. Investments / Infrastructure															
6.1 Elaboration of detailed Works design															
6.1.1. Elaboration of the reconstruction of the interior of Church St. Dimitrija in Gradeshnica	per project	1	1381	1.381,00		1	84.701,29	84.701,29	1.381,00		1.381,00		1.381,00	0,00	0,00%
6.1.2. Elaboration of the works for	per project	1	6504	6.504,00		1	397.994,85	397.994,85	6.489,05		6.489,05		6.489,05	14,95	0,23%

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Recreation park Konjarka															
6.1.3. Elaboration of works for demining	per project	1	1000	1.000,00		1	61.333,30	61.333,30	1.000,00		1.000,00		1.000,00	0,00	0,00%
6.2 Works				0,00											
6.2.1. Reconstruction of the interior of Church St. Dimitrija in Gradeshnica	per works	1	38600	38.600,00		1	2.347.914,16	2.347.914,16	38.281,23		38.281,23		38.281,23	318,77	0,83%
6.2.2. Construction of the Recreation park Konjarka	per works	1	88280	88.280,00		1	5.399.596,05	5.399.596,05	88.036,94		88.036,94		88.036,94	243,06	0,28%
6.2.3. Demining	per works	1	9208	9.208,00		1	563.010,25	563.010,25	9.179,52		9.179,52		9.179,52	28,48	0,31%
6.3 Supervision of works				0,00											
6.3.1. Supervision of reconstruction of the Church St. Dimitrija	per supervision	1	2138	2.138,00		1	130.006,97	130.006,97	2.119,68		2.119,68		2.119,68	18,32	0,86%
6.3.2. Supervision of construction of the Recreation park Konjarka	per supervision	1	4739	4.739,00		1	290.015,74	290.015,74	4.728,52		4.728,52		4.728,52	10,48	0,22%
6.3.3. Supervision of demining	per supervision	1	573	573,00		1	34.501,82	34.501,82	562,53		562,53		562,53	10,47	1,83%
6.4 Other (pls specify)															
Subtotal Investments / Infrastructure				152.423,00				9.309.074,43	151.778,47		151.778,47	0,00	151.778,47	634,06	
7. Other															
3.2 Local transportation (action 1.3., action 2.3.,	Per km	15000	0,2	3.000,00		12.357,55	12,27	151.585,86	2.471,51		2.471,51		2.471,51	528,49	17,62%

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action 5.1., action 5.3. action 5.4														
3.3.2.1. Artistic competition - action 5.1. - 24 participants x 7 nights	Per night	168	50	8.400,00		168	2.787,13	468.237,43	7.634,31		7.634,31		7.634,31	765,69 9,12%
3.3.2.2. Training seminars - action 5.3. - 44 participants x 1 night	Per night	44	50	2.200,00		44	3.257,50	143.329,79	2.336,90		2.336,90		2.336,90	- 136,90 -6,22%
3.4.2.1. DSA Artistic competition (action 5.1.) - 24 participants x 7 days	per day	0	0	0,00				0,00	0,00		0,00		0,00	#DIV/0!
3.4.2.2. DSA Training seminars (action 5.3.) - 44 participants	per day	44	20	880,00		44		0,00	0,00		0,00		0,00	880,00 100,00%
3.4.2.3 Fuel for jeep tour action 5.4 - 30 jeeps	per jeep	30	52	1.560,00		30	1.305,27	39.158,25	638,45		638,45		638,45	921,55 59,07%
3.4.2.4 Refreshments for cross roud tours for 90 participants action 5.4	per participant	90	20	1.800,00		90	1.217,92	109.613,03	1.787,17		1.787,17		1.787,17	12,83 0,71%
<i>Subtotal Other</i>				17.840,00				911.924,36	14.868,34		14.868,34		14.868,34	2971,6 6 16,66%
8. Subtotal direct eligible costs of the Action (1-7)				293.036,00				17.683.629, 56	288.320,20	0,00	288.320,20	0,00	288.320,20	4.682,9 2
9. Provision for contingency reserve (maximum 5% of 7, subtotal of direct eligible costs of the				0										

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Action)															
10. Total direct eligible costs of the Action (8+9)				293.036,00				17.683.629,56	288.320,20	0,00	288.320,20	0,00	288.320,20	4.682,92	
11. Administrative costs (maximum 7% of 9, total direct eligible costs of the Action)				0											
12. Total eligible costs (10+11)				293.036,00				17.683.629,56	288.320,20		288.320,20	0,00	288.320,20	4.682,92	
13. Taxes				0				0,00	0,00		0,00				
14. Total accepted costs of the action (12+13)				293.036,00				17.683.629,56	288.320,20		288.320,20	0,00	288.320,20	4.682,92	

Annex 2 Terms of Reference Expenditure Verification

The following are the terms of reference ('ToR') under which **Municipality of Novaci**, here and after '**the Coordinator**' agrees to engage the Audit Company, Pelagonian Audit House DOO Prilep, UBN 5352142, Dragan Dimeski 19, 7500 Prilep, Macedonia, here and after '**the Auditor**' to perform an expenditure verification and to report in connection with a European Union financed grant contract for an external action concerning „Living History –Living Nature II’’ Contract No IPA/2010/DN023657/CN357019, here and after the '**Grant Contract**'. Where in these ToR the 'Contracting Authority' is mentioned, this refers to the European Union represented by the Delegation of European Union to the former Yugoslav Republic of Macedonia, here and after 'the Contracting Authority', which has signed the Grant Contract with the Beneficiary and is providing the grant funding. The Contracting Authority is not a party to this agreement.

1.1 Responsibilities of the Parties to the Engagement

The term "**Beneficiary(ies)**" refers collectively to all Beneficiaries, including the Coordinator, of the Action. When there is only one Beneficiary of the Action, the terms Beneficiary(ies) and Coordinator should both be understood as referring to the only Beneficiary of the Action (see footnote 1). Where applicable the term 'Beneficiary(ies)' includes its affiliated entity(ies).

- The Coordinator is responsible for providing a Financial Report for the action financed by the Grant Contract which complies with the terms and conditions of the Grant Contract and for ensuring that this Financial Report reconciles to the Beneficiary's accounting and bookkeeping system and to the underlying accounts and records. The Beneficiary is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.
- The Coordinator accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Beneficiary(ies), and as the case may be its affiliated entity(ies), providing full and free access to its (their) staff and its (their) accounting and bookkeeping system and underlying accounts and records.
- 'The **Auditor**' is responsible for performing the agreed-upon procedures as specified in these ToR. 'Auditor' refers to the audit firm contracted for performing this engagement and for submitting a report of factual findings to the Beneficiary. 'Auditor' can refer to the person or persons conducting the verification, usually the engagement partner or other members of the engagement team. The engagement partner is the partner or other person in the audit firm who is responsible for the engagement and for the report that is issued on behalf of the firm, and who has the appropriate authority from a professional, legal or regulatory body.

By agreeing these ToR the Auditor confirms that he/she meets at least one of the following conditions:

- The Auditor and/or the firm is a member of a national accounting or auditing body or institution which in turn is member of the International Federation of Accountants (IFAC).
- The Auditor and/or the firm is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.
- The Auditor and/or the firm 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 State¹).
- The Auditor and/or the firm 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).
- **Of the above conditions, we as audit firm can confirm that we are a member of the Institute of Certified Auditors of the Republic of Macedonia which in turn is member of the International Federation of Accountants (IFAC).**
- **We as auditors are committed to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.**

1.2 Subject of the Engagement

The subject of this engagement is 1 (one) final Expenditure Verification Reports in connection with the Grant Contract for the period covering from 21 May 2015 to 20 March 2017 and the action entitled Living History – Living Nature II, here and after referred to as the 'Action'. Annex 1 to these ToR contains information about the Grant Contract.

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1.3 Reason for the Engagement

The Coordinator is required to submit to the Contracting Authority an expenditure verification report produced by an external auditor in support of the payment requested by the Coordinator under Article 15 of the General Conditions of the Grant Contract. The Authorising Officer of the Commission requires this report because the payment of expenditure requested by the Coordinator is conditional on the factual findings of this report.

1.4 Engagement Type and Objective

This expenditure verification is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Grant Contract. The objective of this expenditure verification is for the Auditor to carry out the specific procedures listed in Annex 2A to these ToR and to submit to the Coordinator a report of factual findings with regard to the specific verification procedures performed. Verification means that the Auditor examines the factual information in the Financial Report of the Coordinator and compares it with the terms and conditions of the Grant Contract. As this engagement is not an assurance engagement the Auditor does not provide an audit opinion and expresses no assurance. The Contracting Authority assesses for itself the factual findings reported by the Auditor and draws its own conclusions from these factual findings.

1.5 Standards and Ethics

The Auditor shall undertake this engagement in accordance with:

- the International Standard on Related Services (‘ISRS’) 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information 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 with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the Auditor is independent from the Beneficiary(ies) and complies with the independence requirements of the IFAC Code of Ethics for Professional Accountants.

1.6 Procedures, Evidence and Documentation

The Auditor plans the work so that an effective expenditure verification can be performed. The Auditor performs the procedures listed in Annex 2A of these ToR (‘Listing of specific procedures to be performed’) and applies the guidelines in Annex 2B (Guidelines for specific procedures to be performed). The evidence to be used for performing the procedures in Annex 2A is all financial and non-financial information which makes it possible to examine the expenditure claimed by the Coordinator in the Financial Report. The Auditor uses the evidence obtained from these procedures as the basis for the report of factual findings. The Auditor documents matters which are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance with ISRS 4400 and these ToR.

1.7 Reporting

The report on this expenditure verification should describe the purpose, the agreed-upon procedures and the factual findings of the engagement in sufficient detail to enable the Coordinator and the Contracting Authority to understand the nature and extent of the procedures performed by the Auditor and the factual findings reported by the Auditor.

Timely implementation of audit procedures, it will start on 19 May 2017.

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We have planned 4 (four) working days, the audit procedures to perform in the office of Municipality of Novaci, and the rest of the working days, in our office str.,„Dragan Dimeski’’ No.19 – Prilep, Republic of Macedonia.

For complete and performing audit procedures will require a team of one certified auditor Mr.Pecko Risteski-Manager with over 15 years experience in audit, and two assistants auditors - Mrs. Menche Bozhinoska, with over 5 years experience in audit and Mrs.Suzana Vasiloska with over 3 years experience in audit.

The use of the Model Report for an Expenditure Verification of an EU Grant Contract in Annex 3 of these ToR is compulsory. This report should be provided by the Auditor to Municipality of Novaci within 45 working days after the day of signature of these ToR.

Other Terms

The fee for this Final Expenditure Verification Report shall be 3.000 euros.

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Annex 1 Information about the Grant Contract

Information about the Grant Contract	
Reference number and date of the Grant Contract	Contract No: IPA/2010/DN023657/CN357019 20 May 2015
Grant contract title	Living History –Living Nature II LHI LNA II
Country	Republic of Macedonia
Coordinator	Municipality of Novaci, Republic of Macedonia
Beneficiary(ies) and affiliated entity(ies)	Municipality of Novaci, Republic of Macedonia
Start date of the implementation period of the Action	21 May 2015
End date of the implementation period of the Action	20.03.2017
Total [accepted/eligible] cost of the Action	293.036,00 EUR
Grant maximum amount	249.080,60 EUR
Total amount received to date by the Coordinator from Contracting Authority	203.183,60 EUR Initial pre-financing payment received on 09 September 2015
Total amount of the payment request	
Contracting Authority	Delegation of the European Union in the former Yugoslav Republic of Macedonia
European Commission	Delegation of the European Union Sv. Kiril I Metodij 52v, 1000 Skopje Republic of Macedonia Att: Mr.Paolo Benenuti, Deputy Head of Section
Auditor	Pelagonian Audit House DOO Prilep Dragan Dimeski 19, 7500 Prilep Republic of Macedonia

Annex 2A Listing of Specific Procedures to be performed

1. 1 General Procedures

1.1. Terms and Conditions of the Grant Contract

The Auditor:

- obtains an understanding of the terms and conditions of the Grant Contract by reviewing the Grant Contract and its annexes and other relevant information, and by inquiry of the Coordinator;
- obtains a copy of the original Grant Contract (signed by the Beneficiary(ies) and the Contracting Authority) with its annexes;
- obtains and reviews the Report (which includes a narrative and a financial section) as per Article 2.1 of the General Conditions;

- verifies whether the Grant Contract is mono or multi-beneficiary (see Grant Contract introduction part; in case of a multi-beneficiary grant the term 'Coordinator' is used);
- verifies whether there is (are) an affiliated entity(ies) to any of the Beneficiary(ies) (see Article 7.1 of the Special Conditions).

1.2. Financial Report for the Grant Contract

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

- The Financial Report must conform to the model in Annex VI of the Grant Contract;
- The Financial Report should cover the eligible costs of 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 Grant Contract;
- The proof of the transfers of ownership of equipment, vehicles and supplies for which the purchase cost was more than €5000 per item (Article 7.5 of the General Conditions of the Grant Contract) as well as the respective certificates of origin (Annex IV of the Grant 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(ies) have complied with the following rules for accounting and record keeping of Article 16 of the General Conditions the Grant Contract:
- The accounts kept by the Beneficiary(ies) for the implementation of the Action must be accurate and up-to-date;
- The Beneficiary(ies) must have a double-entry book-keeping system;
- The accounts and expenditure relating to the Action must be easily identifiable and verifiable.

1.4. Reconciling the Financial Report to the Beneficiary(ies)'s Accounting System and Records

The Auditor reconciles the information in the Financial Report to the Beneficiary(ies)'s accounting system and records (e.g. trial balance, general ledger accounts, sub ledgers etc.).

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 applicable according to Article 15.9 of the General Conditions. The relevant parts of this article are as follows:

Reports shall be submitted in the currency set out in the Special Conditions, and may be drawn from financial statements denominated in other currencies, on the basis of the Beneficiary(ies)'s applicable legislation and applicable accounting standards. In such case and for the purpose of reporting, conversion into the currency set in the Special Conditions shall be made using the rate of exchange at which the Contracting Authority 's contribution was recorded in the Beneficiary(ies)'s accounts, unless otherwise provided for in the Special Conditions.

Costs incurred in other currencies than the one used in the Beneficiary(ies)'s accounts shall be converted using the monthly Inforeuro on the date of payment or according to its usual accounting practices if so provided for in the Special Conditions.

1.6. Simplified Cost Options

- The Auditor verifies with **Annex III of the Grant Contract** i.e. **Budget for the Action** whether the Beneficiary(ies) have applied for the application of simplified costs i.e. for the application of any or a combination of unit costs, lump sums and flat-rate financing. Eligible costs for the Action may be based on any or a combination of actual costs incurred, unit costs, lump sums and flat-rate financing. Simplified cost options can apply to one or more of the direct cost headings of the Budget for the Action and Financial Report (i.e. cost headings 1 to 6), or to sub-cost headings or to specific cost items within these cost headings.
- The Auditor obtains an understanding of the conditions set out in:
 - **Article 2.1.c) of the General Conditions.** This Article stipulates that in case of simplified cost options the Report for the Action (narrative and financial) shall provide the qualitative and quantitative information needed to demonstrate the fulfilment of the conditions for reimbursement established in the Special Conditions;
 - **Articles 14.3 to 14.5** of the General Conditions; provisions for simplified cost options.If simplified cost options apply, the Auditor performs the specific procedures set out at 4.1.(2) below.

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

2.1. Budget of the Grant 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 Grant Contract (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Contract.

2.2. Amendments to the Budget of the Grant Contract

The Auditor verifies whether there have been amendments to the budget of the Grant Contract. Where this is the case the Auditor verifies that the Coordinator has:

- requested an amendment to the budget and obtained an addendum to the Grant Contract if such an addendum was required (Article 9 of the General Conditions).
- informed the Contracting Authority about the amendment if the amendment was within the scope of Article 9.4 of the General Conditions, and an addendum to the Grant 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) *Actual costs incurred (Article 14.1)*

The Auditor verifies that the actual expenditure for a selected item was incurred by and pertains to the Beneficiary(ies) or its (their) affiliated entity(ies). The Auditor should take into account the detailed conditions for actual costs incurred as set out in Article 14.1.(i) to (iii). 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.

At final reporting stage the costs incurred during the implementation period but not yet paid can be accepted as actual costs incurred, provided that (1) a liability exists (order, invoice or equivalent) for services rendered or goods supplied during the implementation period of the action, (2) the final costs are known and (3) these costs are listed in the final Financial Report (Annex VI) together with the estimated date of payment (see Article 14.1.a).(ii) of the General Conditions). The Auditor verifies whether these cost items have effectively been paid at the moment of the auditor's verification.

(2) Simplified cost options² (Article 14.3 – 14.5)

Where simplified cost options apply (see general procedure 1.6) the Auditor verifies:

- which options (i.e. unit costs, lump sums or flat-rate financing) apply and to which (sub)cost-headings and/or cost items (Annex III (Budget for the Action) of the Grant Contract);
- which amount(s) or percentage rate(s) have been contractually agreed (Annex III (Budget of the Action) of the Grant Contract);
- which quantitative and/or qualitative information was used to determine and justify the declared costs (e.g. number of staff, number of items purchased; type of costs and activities financed by a lump sum)³;
- whether the maximum amounts of simplified cost options for each beneficiary (this includes if applicable simplified cost options of its affiliated entity(ies)) are not exceeded, in accordance with the conditions established in the Contract;
- the plausibility (i.e. necessity, reasonableness, reality) of the quantitative and qualitative information related to the declared costs;
- that the costs covered by lump sums, unit costs or flat-rate financing are not included (no double funding) in other direct costs (cost headings 1 – 6), either actual or under simplified cost options;
- that the total costs stated in the Financial Report have been correctly determined;

(3) 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. An exception is made for costs relating to final reports including expenditure verification, audit and final evaluation reports of the Action and which may be incurred after the implementation period of the Action.

(4) Budget (Article 14.1b)

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

(5) 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.

(6) Records (Article 14.1d)

The Auditor verifies that expenditure for a selected item is recorded in the Beneficiary(ies)'s accounting system and was recorded in accordance with the applicable accounting standards of

the country where the Beneficiary is established and the Beneficiary's usual cost accounting practices.

(7) *Applicable legislation (Article 14.1e)*

The Auditor verifies that expenditure complies with the requirements of tax and social security legislation where this is applicable (for example: employers part of taxes, pension premiums and social security charges).

(8) *Justified (Article 14.1f)*

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 supporting documents as specified in Article 16.8 and 16.9 of the General Conditions of the Grant Contract.

(9) *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.

(10) *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.

(11) *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 issues 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. Eligible Direct Costs (Article 14.2)

(1) The Auditor verifies that expenditure for selected items which are recorded under one of the direct costs headings (1 to 6) of the Financial Report, are covered by the direct costs as defined in Article 14.2 by examining the nature of these expenditure items.

(2) The Auditor verifies that duties, taxes and charges, including VAT which are recorded under direct costs are **not recoverable** by the beneficiary(ies) and/ or its(their) affiliated entities (see Article 14.2.g) of the General Conditions). This procedure is not necessary in case Article 7.1 of the Special Conditions provides that duties, taxes and charges, including VAT are **not** eligible.

The Auditor obtains evidence that the Beneficiary(ies) and or its affiliated entities cannot reclaim the duties, taxes or charges, including VAT through an exemption system and/or a refund *a posteriori*. For this purpose the Auditor should refer to Annex E3a1 (Information on the tax regime) which provides information on the tax regime applicable to grant contracts (*Note*: the standard template / text is annexed to the PRAG and it can be found at the PRAG website mentioned at procedure 1.1 above).

3.3. Contingency Reserve (Article 14.6)

The Auditor verifies that the provision for contingency reserve (heading 8 in Financial Report) does not exceed 5% of the direct eligible costs of the Action and that the Coordinator has

obtained prior written authorisation from the Contracting Authority for the use of this contingency reserve.

3.4. Indirect costs (Article 14.7)

The Auditor verifies that the indirect costs to cover overhead costs (heading 10 in Financial Report) do not exceed the maximum percentage of 7% of the total final amount of eligible direct costs of the Action or the percentage established in article 3 of the Special Conditions of the Grant Contract if applicable.

3.5. In kind contributions (Article 14.8)

- (1) The Auditor verifies that the costs in the Financial Report do not include contributions in kind. Any contributions in kind (these should be listed separately in Annex III, Budget for the Action), do **not** represent actual expenditure and are not eligible costs.
- (2) Contributions in kind can be accepted as co-financing and in this case this should be explicitly stipulated in Article 7.1 of the Grant Contract. The Auditor verifies whether such co-financing is applicable and whether it is properly stated under heading 12 of the Financial Report.

3.6. Non-eligible costs (Article 14.9)

The Auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in Article 14.9 of the General Conditions. These costs include *inter alia* currency exchange losses.

3.7. Revenues of the Action

The Auditor examines whether the revenues which should be attributed to the Action (including grants and funding received from other donors and other revenue generated by the Beneficiary as part of the Action have been allocated to the Action and disclosed in the Financial Report. For this purpose the Auditor inquires with the Beneficiary and examines documentation obtained from the Beneficiary(ies). The Auditor is not expected to examine the completeness of the revenues reported.

Annex 2B Guidelines for Specific Procedures to be performed

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 the 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 Beneficiary (Article 14.1.d of the General Conditions of the Grant Contract);
- The Beneficiary(ies) 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 Beneficiary gives access to all documents and

databases concerning the technical and financial management of the Action (Article 16.3 of the General Conditions);

- Article 16.9 of the General Conditions of the Grant 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, records, accounting and supporting documents:

- shall be easily accessible and filed so as to facilitate their examination (Article 16.7 of the General Conditions);
- shall be available in the original form or in the form of copies (as set out in the PRAG), including in electronic form.

Guidance: records and accounting and supporting documents should 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). Electronic documents can be accepted only where:

- the documentation was first received or created (e.g. an order form or confirmation) by the Beneficiary(ies) in electronic form; or
- the Auditor is satisfied that the Beneficiary uses an electronic archiving system which meets established standards (e.g. a certified system which complies with national law).
- should preferably be obtained from independent sources outside the entity (an original supplier's 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 Grant Contract (Annex 2A — procedure 1.1)

The Auditor obtains an understanding of the terms and conditions of the Grant Contract. S/he should pay particular attention to Annex I of the Grant Contract (the Description of the Action), Annex II (General Conditions) and Annex IV (Procurement by grant Beneficiaries in the context of European Union external actions) which provides principles for procurement and nationality and origin rules.. Failure to comply with these principles or rules makes expenditure ineligible for EU financing.

The Auditor ensures with the Beneficiary that the applicable principles for procurement and the nationality and origin rules are clearly identified and understood. If the Auditor finds that the terms and conditions to be verified are not sufficiently clear he/she should request clarification from the Beneficiary.

3. Selecting Expenditure for Verification (Annex 2A — procedures 3.1 – 3.7)

The expenditure claimed by the Coordinator in the Financial Report is generally presented under the following expenditure headings: 1. Human Resources, 2. Travel, 3. Equipment and Supplies, 4. Local office, 5. Other costs, services, 6. Other, 8. Provision for contingency reserve and 10. Indirect costs. Expenditure headings 1. to 6. represent **direct** costs of the Action. Expenditure headings can be broken down into expenditure subheadings such as for example 1.1 Salaries.

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 (e.g. 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 the underlying actions or transactions, whatever 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).

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’) is the total amount of expenditure verified by the Auditor, expressed as a percentage of the total amount of expenditure reported by the Coordinator in the Financial Report. This amount is reported in Annex V of the Grant Contract.

The Auditor ensures that the overall ECR is at least **65 %**. If he/she 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 3.1–3.11 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 verification exceptions found and the potential impact on the EU contribution, should the Commission declare the expenditure item(s) concerned ineligible (taking into account the percentage of funding by the Commission and the impact on indirect expenditure (e.g. administrative costs, overheads)). The Auditor reports all exceptions found, including those for which he/she cannot quantify the amount of the verification exception found and the potential impact on the EU contribution.

Example: if the Auditor finds an exception of € 1 000 with regard to procurement principles for a grant contract where the EU finances 60 % of the expenditure and where indirect costs represent 7 % of total direct eligible expenses, the Auditor reports an exception of € 1 000 and a financial impact of 642€ ($€ 1\,000 \times 60\% \times 1.07$).