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Орг. ед.	Број	М.О.	Сектор
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Report for an Expenditure Verification

Project:

“Living History, Living Nature - LHI LNA”

Municipality of Novaci, Macedonia

March 2015

**Report for an Expenditure Verification of a Grant Contract
External Actions of the European Union**

**“Living History, Living Nature - LHI LNA,
Number CRIS no IPA/2011/DN 022620/CN 314 218”,**

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Report of Factual Findings

Municipality of Novaci

23 March 2015

In accordance with the terms of reference dated 20.02.2015 that you agreed with us, we provide our Report of Factual Findings (“the Report”), with respect to the accompanying Final Financial Report for the period covering 26 June 2013 - 25 December 2014 (Annex 1 of this report). You requested certain procedures to be carried out in connection with your Final Financial Report and the European Union financed Grant Contract concerning “Living History, Living Nature - LHI LNA, IPA/2011/DN 022620/CN 314 218”, the Grant 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 Grant Contract between you and the European Commission, 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 agreed upon procedures listed in the terms of reference for this engagement (see Annex 2 of this Report).

These procedures have been determined solely by the Contracting Authority and performed solely to assist the Contracting Authority in evaluating whether the expenditure claimed by you in the accompanying Financial Report are 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.

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Partner 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 EUR 194.800,46.

The Expenditure Coverage Ratio is 100%. 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.

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 above under 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 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 Authorities 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, 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 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

Auditors' signature

Name of Auditor signing: Zvonko Kocovski

Auditors' address: 11 Oktomvri 86-1/1

Date of signature: 23 March 2015



Information about the Grant Contract

As stipulated in the Grant Contract signed in June 25, 2013 between Municipality of Novaci (hereinafter called "the Beneficiary") and the European Union, represented by the Delegation of the European Union to the former Yugoslav Republic of Macedonia (hereinafter called "the Contracting Authority"), the Beneficiary will be awarded the Grant for the implementation of the action entitled: "Living History, Living Nature - LHI LNA, IPA/2011/DN 022620/CN 314 218" (hereinafter "the Project") under terms and conditions set out in the Grant Contract.

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 arena 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 funds required for this purpose have been estimated at EUR 267,214.50. The Grant Contract stipulated that the Contracting Authority will undertake to allocate a maximum of EUR 227,132.33 as participation towards realization of the project which is equivalent of 85.00% of the estimated total eligible costs.

According to the Grant Contract the above mentioned amount will be settled in accordance with Article 15 of Annex II, and the following shall apply:

- First instalment of pre-financing at amount of EUR 128,626.43;
- Forecast further instalment of pre-financing at amount of EUR 53,079.43;
- Forecast final payment at the amount of EUR 45,426.47.

The implementation period of the project was set to be 18 months, starting from 26 June 2013 to 25 December 2014.

The period subject to this expenditure verification report is from 26 June 2013 to 25 December 2014.

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

Amounts expressed in EUR	
Funds defined by the Contract	267,214.50
Funds undertake by CA	227,132.33
1 Funds received by CA during the period subject of this EVR	
Instalment at 23.08.2013	128.626,43
Instalment at 26.02.2014	37.477,20
TOTAL	166.103,63

The date for commencing implementation shall be 26 June 2013 as stated in Article 2.2 of the Special Conditions of the Grant Contract for an Action. The implementation period was set out to be 18 months, until 25 December 2014. All other terms and conditions of the Grant Contract remained valid.

Up to December 25, 2014 the Beneficiary reported a total expenditure of EUR 194.800,46.

The Beneficiary did not use more funds than approved.

1 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 - LHI LNA, IPA/2011/DN 022620/CN 314 218". 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 (section 3 and 4) of the ToR for this expenditure verification.

The total expenditure verified by us amounts to EUR 194.800,46 and is summarized in the table below. The overall Expenditure Coverage Ratio is 100%.

Final financial report: period (26/06/2013-25/12/2014)	Expen. amount reported	Expen. amount verified	Percentage of expendit. covered
1. Staff costs	29.098,93	29.098,93	100%
2. Overhead	9.105,36	9.105,36	100%
3. Travel and accommodation	18.187,65	18.187,65	100%
4. External Expertise and Services	93.604,69	93.604,69	100%
5. Equipment and supplies	2.979,76	2.979,76	100%
6. Investments/Infrastructure	41.824,07	41.824,07	100%
TOTAL ELIGIBLE COST	194.800,46	194.800,46	100%

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 report our factual findings resulting from these procedures below.

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 for this expenditure verification. We obtained a copy of the original Grant Contract (signed by the Beneficiary and the Contracting Authority) with its annexes, and we obtained and reviewed the Report (which includes a narrative and a financial section) as per Article 2.1 of the General Conditions.

During the implementation period there was a written email notification from the Beneficiary to the Contracting Authority for change of the Project staff.

Katerina Cukalevska was Project Manager from 26.06.2013 to 25.03.2014, while Marija Antuleska was Project Manager from 26.03.2014 to 25.12.2014.

Kristina Pavloski was Administrative staff from 26.06.2013 to 31.01.2014, while Goce Todoroski was Administrative staff from 01.02.2014 to 25.12.2014.

No factual findings have arisen from this procedure.

1.2 Financial Report for the Grant Contract

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

- The Financial Report conforms to the model in Annex VI of the Grant Contract;
- The Financial Report covers the eligible costs of the Action as a whole;
- The Financial Report is drawn up in the language of the Grant Contract.

No factual findings have arisen from this procedure.

1.3 Rules for Accounting and Record keeping

The Beneficiary has complied with the following rules for accounts 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 expenditures relating to the Action are easily identifiable and verifiable.
- The accounts provide details of interest accrued on funds paid by the Contracting Authority.

No factual findings have arisen from this procedure.

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

The information reported in the Financial Report and within the Beneficiary's accounting system and records complies with the conditions of the Grant Contracts.

The Beneficiary keeps accurate and regular accounts of the implementation of the action using an appropriate accounting and double-entry book-keeping system. This system is in accordance with the accounting and bookkeeping policies and rules that apply in the country. Accounts and expenditure relating to the Action are easily identifiable and verifiable.

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. The exchange rate used for the period is 1 EUR = 61,6056 MKD.

No factual findings have arisen from this procedure.

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

2.1 Budget of the Grant Contracts

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.

2.2 Amendments to the Budget of the Grant Contracts

We verify that there has not been amendment to the budget of the Grant Contract.

No factual findings have arisen from this procedure.

3 Procedures to verify selected Expenditure

We have reported further below all the exceptions resulting from the verification procedures specified at point 3.1 to 3.8 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 EU 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). 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 EU contribution.

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.

(1) Costs actually incurred

The expenditures were actually incurred by and pertain to the Beneficiary.

(2) Cut-off - Implementation period

The expenditures were incurred during the implementation period of the Action.

(3) Budget

The expenditures were indicated in the Action budget.

(4) Necessary

It is plausible that the expenditures were necessary for the implementation of the Action and were incurred for the contracted activities of the Action.

(5) Records

The expenditures are recorded in the Beneficiary's accounting system and are in accordance with the applicable accounting standards in the country.

(6) Justified

The expenditures are substantiated by evidence and notably the supporting documents as specified in Article 16.2 and 16.3 of the General Conditions of the Grant Contract.

(7) Valuation

The monetary value of a selected expenditure item agrees with underlying documents and correct exchange rates are used where applicable.

(8) Classification

We verify that expenditure for a transaction or action has been classified under the correct heading and subheading of the Financial Report.

(9) Compliance with Procurement, Nationality and Origin Rules

We verify that expenditure was incurred in accordance with procurement, nationality and origin rules.

3.2 Eligibility of Direct Costs

We checked up the nature of the expenditure items recorded under direct costs headings 1 to 6 of the Financial Report. We verify that the expenditures are covered as defined in the Grant Contracts.

3.3 Contingency Reserve

The costs in the Financial Report do not include contingency reserve.

3.4 Administrative costs

The costs in the Financial Report do not include administrative costs.

3.5 Contributions in kind

The costs in the Financial Report do not include contributions in kind.

3.6 Ineligible costs

The expenditures reported are considered eligible cost as described in Article 14 of the General Conditions to the Grant Contract for the Actions.

3.7 Accepted costs

The total accepted costs are total eligible costs of the Action. The costs reported in the Financial Report do not include any taxes.

3.8 Revenues of the Action

The Beneficiary did not earned revenues from the funds received from the Contracting Authority in the context of the Action.

Final financial report:
(26/06/2013-25/12/2014)

period

Final financial report: (26/06/2013-25/12/2014)	period	Budget as per contract/addendum				Reallocati on	Expenditures incurred					Variations in comparison with initial budget/addendum		
		Unit	# Units	Unit cost (in EUR)	Costs (in EUR)		Per currency			Cumulated 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
							Exchange rate of the period (26/06/2013-25/12/2014):	Units	Unit cost (in currency n°1)					
Expenditures		(a)	(b)	(a)*(b)	(d)	(e)	(f)=(d)*(e)	(g) =(f)*(P ₁ -rate ₁)	(h) =Sum (g ₁ -g ₀)	(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 Staff Category 1		Per month												
1.1.1.2 Staff Category 2		Per month												
Subtotal 1.1.1 - limited to 15 % of 8 For elig costs (no addit.)														
1.1.2 Public employees with additional (cost fully eligible)														
1.1.2.1 Staff 1		Per month												
1.1.2.2 Staff 2		Per month												
1.2 Salaries (gross salaries including social security charges and other related costs, local private employees) ¹														
1.2.1. Project Manager (engaged for 70% of the time)		Per month	12,60	1 000,00	12 600,00	18	43 120,83	776 175,00	12 599,10	18	12 599,10	12 599,10	0,90	0,01%
1.2.2. Financial Manager (engaged for 50% of the time)		Per month	9,00	900,00	8 100,00	18	27 720,56	498 970,00	8 099,43	18	8 099,43	8 099,43	0,57	0,01%
1.2.3. Administrative staff (engaged 78% of the time)		Per month	14,00	600,00	8 400,00	18	28 750,67	517 512,00	8 400,41	18	8 400,41	8 400,41	-0,41	0,00%
1.3 Salaries (gross salaries including social security charges and other related costs, expatriant staff)														
1.3.1 Staff 1		Per month												
1.3.1.2 Staff 2		Per month												
Subtotal Staff Costs					29 100,00			1 792 657,00	29 098,93	29 098,93	0,00	29 098,93	1,07	
2. Overhead														
2.1 Vehicle costs		Per month	18	100	1 800,00	18	3 779,22	68 026,00	1 104,22	18	1 104,22	1 104,22	695,78	38,65%
2.2 Office rent		Per month												
2.3 Consumables - office supplies		Per month	18	100	1 800,00	18	5 313,61	95 645,00	1 552,54	18	1 552,54	1 552,54	247,46	13,75%
2.4 Other services (tel/fax, electricity/heating, maintenance)		Per month	18	500	9 000,00	18	22 070,56	397 270,00	6 448,60	18	6 448,60	6 448,60	2 551,40	28,35%
Subtotal Overhead					12 600,00			560 941,00	9 105,36	9 105,36	0,00	9 105,36	3 494,64	
3. Travel and accommodation														
3.1 Travel (5)														
3.1.1 Travel Greece-the former Yugoslav Republic of Macedonia		Per km	5600	0,2	1 120,00	3797	12,24	46 472,00	754,35	3797	754,35	754,35	365,65	32,65%
3.1.2 Travel Greece-the former Yugoslav Republic of Macedonia (Airplane tickets)														
3.2 Local transportation		Per km			2 400,00	6704	12,24	82 049,00	1 331,84	6704	1 331,84	1 331,84	1 068,16	44,51%
3.3 Accommodation														
3.3.1 Hotel accommodation Greece		Per night	9	80	720,00	9	0,00	0,00	0,00	9	0,00	0,00	720,00	100,00%
3.3.2 Hotel accommodation former Yugoslav Republic of Macedonia		Per night	182	60	10 920,00	182	3 671,40	668 195,00	10 846,34	182	10 846,34	10 846,34	73,66	0,67%
3.4 Daily subsistence allowances (6)														
3.4.1 Daily allowance Greece		Per day	18	40	720,00	3	1 325,00	3 975,00	64,52	3	64,52	64,52	655,48	91,04%
3.4.2 Daily allowance former Yugoslav Republic of Macedonia		Per day	210	25	5 250,00	210	1 522,71	319 270,00	5 190,60	210	5 190,60	5 190,60	59,40	1,13%
Subtotal Travel and accommodation					21 130,00			1 120 461,00	18 187,65	18 187,65	0,00	18 187,65	2 942,35	
4. External Expertise and Services (7)														
4.1 Publications (8)														
4.2 Studies, research (8)														
4.2.1 Field Research - Action 3 1														
4.2.1.1 Fee for 3 experts to perform field and desk research engaged for 4 months		per month	12	500	6 000,00	12	30 595,00	367 140,00	5 959,52	12	5 959,52	5 959,52	40,48	0,67%
4.2.1.2 Working materials for 4 months		per month	4	250	1 000,00	4	14 866,25	59 465,00	965,25	4	965,25	965,25	34,75	3,47%
4.2.2 Electronic database - action 3 2														
4.2.2.1 Engagement of IT company for development of database		per work	1	9 000,00	9 000,00	1	550 710,00	550 710,00	8 939,28	1	8 939,28	8 939,28	60,72	0,67%
4.2.3 Field Research - Action 3 3														
4.2.3.1 Fee for 3 experts to perform field and desk research engaged for 4 months		per month	12	500	6 000,00	12	30 595,00	367 140,00	5 959,52	12	5 959,52	5 959,52	40,48	0,67%
4.2.3.2 Working materials for 4 months		per month	4	250	1 000,00	4	15 031,50	60 126,00	975,98	4	975,98	975,98	24,02	2,40%
4.2.4 Electronic database														
4.2.4.1 Engagement of IT company for development of database		per work	1	9000	9 000,00	1	550 710,00	550 710,00	8 939,28	1	8 939,28	8 939,28	60,72	0,67%
4.2.5 Residential program - action 4 3														
4.2.5.1 Fee for tour organizer engaged for 10 days		Per day	10	110	1 100,00	10	6 730,80	67 308,00	1 092,56	10	1 092,56	1 092,56	7,44	0,68%

4.2.3. Working materials for 14 artists	per person	14	200	2 800,00		14	12 238,00	171 332,00	2 781,11	14	2 781,11		2 781,11	18 89	0,67%
4.3 Expenditure verification		1	1 000,00	1 000,00		1	61 601,00	61 601,00	999,93	1	999,93		999,93	0,07	0,01%
4.4 Evaluation costs															
4.5 Translation, interpreters															
4.5.1. Fee for translator for the touring - action 4.2 - engaged for 5 days	Per day	5	100	500,00		5	6 119,00	30 595,00	496,63	5	496,63		496,63	3,37	0,67%
4.5.2. Fee for translator for the residential program - action 4.3 - engaged for 10 days	Per day	10	100	1 000,00		10	6 118,90	61 189,00	993,24	10	993,24		993,24	6,76	0,68%
4.6 Financial services (bank guarantee costs etc.) ?															
4.7 Costs of conferences/seminars (8)															
4.7.1. Fee for external expert support for development and follow up of information for 3.2 days during the implementation and reporting - action 2.1	Per day	32	110	3 520,00		32	6 772,41	216 717,00	3 517,81	32	3 517,81		3 517,81	2,19	0,06%
4.7.2. Project Meetings - action 1.3															
4.7.2.1. Fee for external facilitator on the project meetings engaged for 4 days (2 project meetings x 4 days)	Per day	8	110	880,00		8	6 776,50	54 212,00	879,98	8	879,98		879,98	0,02	0,00%
4.7.2.2. Refreshment for 7 participants on the project meetings (2 meetings x 7 participants x 2 days)	per participant	28	5	140,00		28	282,50	7 910,00	128,40	28	128,40		128,40	11,60	8,29%
4.7.2.3. Close out conference - action 2.4	per contract	1	6 990,00	6 990,00		1	382 726,00	382 726,00	6 212,52	1	6 212,52		6 212,52	777,48	11,12%
4.8 Visibility	per contract	1	8 400,00	8 400,00		1	513 317,00	513 317,00	8 332,31	1	8 332,31		8 332,31	67,69	0,81%
4.8.1. Press releases - TV shows on local TV station	per TV show	5	900	4 500,00		5	55 071,00	275 355,00	4 469,64	5	4 469,64		4 469,64	30,36	0,67%
4.9 Other (pls specify)															
4.9.1. Constitution of group of artists - Action 4.1	Per day	1	110	110,00		1	6 729,00	6 729,00	109,23	1	109,23		109,23	0,77	0,70%
4.9.1.1. Fee for Development of invitations for artists	per piece	90	1	90,00		90	61,90	5 571,00	90,43	90	90,43		90,43	-0,43	-0,48%
4.9.2. Printing and distribution of invitations															
4.9.2.1. Digital exhibition - action 4 - IT firm for development of digital exhibition	per piece	1	10 000,00	10 000,00		1	611 900,00	611 900,00	9 932,54	1	9 932,54		9 932,54	67,46	0,67%
4.9.3. Historical and natural paths design - action 5.1	per contract	1	9 000,00	9 000,00		1	549 375,00	549 375,00	8 917,61	1	8 917,61		8 917,61	82,39	0,92%
4.9.4. Preparation of multilingual tourist guide	per contract	1	8 000,00	8 000,00		1	122 355,00	122 355,00	1 986,10	1	1 986,10		1 986,10	60,13	75,17%
4.9.5. Design and placement of signs	per contract	1	11 000,00	11 000,00		1	673 090,00	673 090,00	10 925,79	1	10 925,79		10 925,79	74,21	0,67%
Subtotal External Expenditure and Services				101 030,00				5 766 573,00	93 604,69		93 604,69	0,00	93 604,69	7 425,31	
5. Equipment (10)															
5.1 Purchase or rent of vehicles	Per vehicle														
5.1.1. Vehicle rent for touring for 5 days - action 4.2	per day	5	200	1 000,00		5	12 238,00	61 190,00	993,25	5	993,25		993,25	6,75	0,67%
5.1.2. Vehicle rent for residential program 10 days - action 4.3	per day	10	200	2 000,00		10	12 238,00	122 380,00	1 986,51	10	1 986,51		1 986,51	13,49	0,67%
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				3 000,00				183 570,00	2 979,76		2 979,76	0,00	2 979,76	20,24	
6. Investments / Infrastructure															
6.1 Elaboration of detailed Works design															
6.1.1. Elaboration of detailed Works design for House of Kalesh Angia	per design	1	7 317,00	7 317,00		1	0,00	0,00	0,00	1	0,00		0,00	7 317,00	100,00%
6.1.2. Elaboration of detailed Works design of Bridge and Watermill of Zovik	per design	1	3 252,00	3 252,00		1	199 965,00	199 965,00	3 245,89	1	3 245,89		3 245,89	6,11	0,19%
6.2 Works															
6.2.1. Reconstruction of the house of Kalesh Angia	per reconstruction	1	45 300,00	45 300,00		1	0,00	0,00	0,00	1	0,00		0,00	45 300,00	100,00%
6.2.2. Reconstruction of the Bridge and Watermill of Zovik	per reconstruction	1	23 220,00	23 220,00		1	1 411 955,00	1 411 955,00	22 919,26	1	22 919,26		22 919,26	300,74	1,30%
6.2.3. Reconstruction of Church St. Dimitrija in village Gradshchina	per reconstruction	1	12 142,50	12 142,50		1	731 029,00	731 029,00	11 866,28	1	11 866,28		11 866,28	276,22	2,27%
6.3 Supervision of works															
6.3.1. Supervision of works of House of Kalesh Angia	per works	1	5 262,00	5 262,00		1	0,00	0,00	0,00	1	0,00		0,00	5 262,00	100,00%
6.3.2. Supervision of Works of Bridge and Watermill of Zovik	per works	1	2 647,00	2 647,00		1	159 000,00	159 000,00	2 580,93	1	2 580,93		2 580,93	66,07	2,50%
6.3.3. Supervision of Works of Church St. Dimitrija in village Gradshchina	per works	1	1 214,00	1 214,00		1	74 648,00	74 648,00	1 211,71	1	1 211,71		1 211,71	2,29	0,19%
6.4 Other (pls specify)															
Subtotal Investments / Infrastructure				100 354,50				2 576 597,00	41 824,07		41 824,07	0,00	41 824,07	585,90	0,2381%
7. Subtotal direct eligible costs of the Action (1+4)				267 214,50				12 000 799,00	194 800,46		194 800,46	0,00	194 800,46	72 414,04	
8 Provision for contingency reserve (maximum 5% of 7, subtotal of direct eligible costs of the Action)				0											
9. Total direct eligible costs of the Action (7+8)				267 214,50				12 000 799,00	194 800,46		194 800,46	0,00	194 800,46	72 414,04	
10 Administrative costs (maximum 7% of 9, total direct eligible costs of the Action)				0											
11. Total eligible costs (9+10)				267 214,50				12 000 799,00	194 800,46		194 800,46	0,00	194 800,46	72 414,04	
12 Taxes				0											
13. Total accepted costs of the Action (11+12)				267 214,50				12 000 799,00	194 800,46		194 800,46	0,00	194 800,46	72 414,04	

Bank interests on EU/EDF contribution yielded during the period: (see article 15.9 of the General Conditions)



TERMS OF REFERENCE FOR AN EXPENDITURE VERIFICATION OF A GRANT CONTRACT

- EXTERNAL ACTIONS OF THE EUROPEAN UNION -

The following are the terms of reference ('ToR') on which **Municipality of Novaci**, 'the Beneficiary' agrees to engage **BDO, doo, Skopje** 'the Auditor' to perform an expenditure verification and to report in connection with a European Union financed grant contract for external actions concerning **Living History, Living nature – LHI LNA** (the 'Grant Contract'). Where in these ToR the 'Contracting Authority' is mentioned this refers to **the European Union, represented by the Delegation of the European Union to the Former Yugoslav Republic of Macedonia** 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. RESPONSIBILITIES OF THE PARTIES TO THE ENGAGEMENT

'The **Beneficiary**' refers to the organisation that is receiving the grant funding and that has signed the Grant Contract with the Contracting Authority.

- The Beneficiary 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 can be reconciled 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 Beneficiary accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Beneficiary, and as the case may be his partners, providing full and free access to the Beneficiary's staff and its accounting and bookkeeping system and underlying accounts and records.
- 'The **Auditor**' is responsible for performing the agreed-upon procedures as specified in these ToR, and for submitting a report of factual findings to the Beneficiary. 'Auditor' refers to the audit firm contracted for this engagement and in particular to 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).

2. SUBJECT OF THE ENGAGEMENT

The subject of this engagement is the Final Financial Report in connection with the Grant Contract for the period covering 26 June 2013 to 25 December 2014 and the action entitled **Living History, Living nature – LHI LNA** the 'Action'. Annex 1 to these ToR contains information about the Grant Contract.

3. REASON FOR THE ENGAGEMENT

The Beneficiary 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 Beneficiary under Article 15 of the General Conditions of the Grant Contract. The Authorising Officer of the Commission requires this report as he makes the payment of expenditure requested by the Beneficiary conditional on the factual findings of this report.

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 Beneficiary 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 Beneficiary 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.

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,

¹ Directive 2006/43 of the European Parliament and of the Council of 147 May 2006 on statutory audits of annual accounts and consolidated, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253 EEC.

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 and complies with the independence requirements of the IFAC Code of Ethics for Professional Accountants.

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 Beneficiary 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.

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 in order to enable the Beneficiary 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.

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.

8. OTHER TERMS

The fee for this engagement shall be EUR 1.000, VAT excluded.

- Annex 1** Information about the Grant Contract
Annex 2A Listing of specific procedures to be performed
Annex 2B Guidelines for specific procedures to be performed

For the Beneficiary:

Signature

Lazar Kotevski, Mayor

20.02.2015



For the Auditor:

Signature

Zvonko Kocovski, Partner

20.02.2015



Annex 1 Information about the Grant Contract

Information about the Grant Contract	
Reference number and date of the Grant Contract	IPA/2011/DN 022620/CN 314 218, date: 25.06.2013
Grant contract title	Living History, Living nature – LHI LNA
Country	Republic of Macedonia
Beneficiary	Municipality of Novaci
Budget line Contract	
Legal basis for the Contract	Grant Contract
Start date of the Action	26.06.2013
End date of the Action	25.12.2014
Total cost of the Action	EUR 267,214.50
Grant maximum amount	EUR 227,132.33
Total amount received to date by the Beneficiary from Contracting Authority	EUR 166.103,63
Total amount of the payment request	-
Contracting Authority	Delegation of the European Union in the former Yugoslav Republic of Macedonia
European Commission	Ms Vanessa DICK, Head of Section Sv Kiril i Metodij 52b, 1000 Skopje tel +38923248500 fax. +38923248501
Auditor	BDO doo, 11 Oktomvri no. 86-1/1, 1000 Skopje Zvonko Kocovski, Partner tel. +38923117888

Annex 2A Listing of Specific Procedures to be performed

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 Beneficiary. The Auditor obtains a copy of the original Grant Contract (signed by the Beneficiary 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 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 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 (Article 7.3 of the General Conditions 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 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 must be accurate and up-to-date;
- The Beneficiary 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 Beneficiary's Accounting System and Records

The Auditor reconciles the information in the Financial Report to the Beneficiary's 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 Grant Contract (Article 15.8 of the General Conditions)

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 Beneficiary has:

- requested an amendment to budget and obtained an addendum to the Grant 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 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) Costs actually incurred (Article 14.1)

The Auditor verifies that the expenditure for a selected item was actually incurred by and pertains to the Beneficiary. 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.

(5) *Records (Article 14.1d)*

The Auditor verifies that 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.

(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 Article 16.2 and 16.3 of the General Conditions of the Grant 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. Provision for Contingency Reserve (Article 14.3)

The Auditor verifies that the provision for contingency reserve (heading 8 Financial Report) does not exceed 5% of the direct eligible costs of the Action and that the Beneficiary has obtained prior written authorisation of the Contracting Authority for the use of this contingency reserve.

3.4. Administrative costs (Article 14.4)

The Auditor verifies that the indirect costs to cover the administrative overheads (heading 10 Financial Report) do not exceed 7% of the total amount of eligible direct costs of the Action.

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. Ineligible costs (Article 14.6)

The Auditor verifies that the expenditure for a selected item does not concern an ineligible 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 that the Beneficiary (or, where applicable the partners) cannot reclaim these taxes through an exemption system and/or a refund *a posteriori*. If this is the case, taxes can be considered as eligible costs, provided that the basic act which finances the EU-contribution does not exclude payment of taxes.

3.7. Accepted costs

Where the basic act which finances the EU-contribution excludes taxes as eligible costs, these taxes may nevertheless be taken into consideration as co-financing by the grant beneficiary. The Auditor verifies that the beneficiary (or, where applicable, the partners) cannot reclaim these taxes through an exemption system and/or a refund *a posteriori*.

3.8. 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 Beneficiary 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 Beneficiary and examines documentation obtained from the Beneficiary. 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 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 Beneficiary (Article 14.1.d) of the General Conditions of the Grant Contract);
- Expenditure must be easily identifiable and verifiable and traced to and within the Beneficiary's accounting and bookkeeping systems (Article 16.1 of the General Conditions);
- The Beneficiary 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 16.2 of the General Conditions);
- Article 16.3 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, 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 GRANT CONTRACT (ANNEX 2A - PROCEDURE 1.1)

The Auditor obtains an understanding of the terms and conditions of the Grant Contract and he/she should pay particular attention to Annex I of the Grant Contract, which contains the Description of the Action, Annex II (General Conditions) and Annex IV, which provides rules for procurement (including nationality and origin rules) by grant beneficiaries in the context of EU external actions. Failure to comply with these rules makes expenditure ineligible for EU financing. These procurement rules apply to all grant contracts but depending on the legal basis for the Grant Contract (e.g. TACIS, ALA, Food Aid and Development Co-operation Instrument) nationality and origin rules may vary. The Auditor ensures with the Beneficiary 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 Guide² to contract procedures for external actions of the European Communities.

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 Beneficiary in the Financial Report is 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 Administrative 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 (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).

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

² 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

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 Beneficiary in the Financial Report and claimed by the Beneficiary for deduction from the total sum of pre-financing under the Grant Contract. This amount is reported in Annex V of the Grant 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 EU 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 EU contribution.

For example: if the Auditor finds an exception of 1.000€ with regard to procurement rules for a grant contract where the EU 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€ ($1.000€ \times 60\% \times 1.07$).

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

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.)
-