



**EACEA**

## **Cluster Meeting**

**European Policy Experimentations – the Way  
Forward**

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**Audit Type I & II Certificates**

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# Controls & Checks

## Controls (wide)

Any measure taken to provide reasonable assurance regarding

- the effectiveness, efficiency and economy of operations;
- Reliability of reporting;
- Safeguarding of assets and information;
- Prevention and detection of fraud and irregularities;
- **Adequate management of the risks relating to legality and regularity of underlying transactions** (i.e. grants).

## Checks (narrow)

Verification of a specific aspect of an expenditure (or revenue) operation

e.g. checking an invoice or other supporting documentation or checking ceilings for salary, per diems, changes between budget headings, etc.



## **Control strategy within the Agency** (not exhaustive)

- Call for proposals (expert evaluation, financial capacity check)
- Grant agreement/decisions (check on budget)
- Bank guarantee against pre-financing
- Monitoring missions
- **Audit certificates (budget-based only)**
- Ex-ante control on interim/final payment
- Ex-post audits (risk-based)
- Fraud prevention and detection strategy

# Audit certificates – Why?

Based on the provisions of the Financial Regulation, and after a desk review strategy on final (financial) reports, audit certificates became part of the control strategy of the Agency for all programmes and are mandatory from 2013. They were created mainly: a) **to lower error rates** and b) **to reduce time limit for balance payment.**

Two types of audit certificates were introduced, applicable only to the share of a grant managed under the **budget-based system**:

- Type I: action grant > €60K and < €750K or operating grant > €60K and < €100K
- Type II: action grant ≥ €750K and operating grant ≥ €100K

# Difference between audit certificates type I and II and link with ex-post audits

Audit certificate type I	Audit certificate type II	Ex-post audit
Expenditure verification	Expenditure verification	Audit
Report of factual findings	Report of factual findings	Audit report
Focus on "identifiable & verifiable" via supporting documents & accounting records (i.e. staff costs, exchange rate, eligibility period, subcontracting)	Additional focus on "connected to project, reasonable, necessary, sound financial management, within ceilings, etc.)	Fully-fledged audit (e.g. audit procedures like APM, work programme, work papers, quality review, reporting)
<b>Low resources/cost</b>	<b>Medium resources/cost</b>	<b>High resources/cost</b>
Agreed-upon-procedures	Agreed-upon-procedures	Assurance/audit opinion
ECR of direct costs 100%	ECR of declared costs 70-85%	Minimum 70%; in practise, around 85%

# Audit certificate Type I (1)

## 1/ Assignment:

The auditor will limit its checks to the supporting documents and the accounting movements. The auditor's role is limited to reporting whether:

- All costs and receipts (including other sources of financing) are supported by relevant documents
- All costs are incurred in the eligibility period
- Expenses have been correctly converted in accordance with the Grant Agreement/Decision
- The beneficiary has complied with the rules for accounting and record keeping
- Sub-contracting and procurement costs comply with the related provisions of the Grant Agreement /Decision

# Audit certificate Type I (2)

## *2/ Percentage of total expenditure to be verified by the auditor:*

In principle 100 % of the direct costs declared by the beneficiary in the Final Financial Report.

There is no minimum "ECR - Expenditure Coverage Ratio" as per the type II audit: the auditor should confirm that all direct costs declared in the Final Financial Report are duly justified by the relevant supporting documents and registered in the accounts.

## *3/ Which auditor is allowed to perform the audit:*

The external auditor must be qualified to carry out statutory audits of accounting documents in accordance with national legislation implementing the Directive on statutory audits of annual accounts and consolidated accounts or any European Union legislation replacing this Directive. A beneficiary established in a third country must comply with equivalent national regulations in the audit field.

For public bodies: Competent Public Officer.

# Audit certificate Type II (1)

## 1/ Assignment:

Similarly to the checks performed by the ex-post audit, the auditor will focus on the compliance of the eligibility of costs with the provisions of the Grant Agreement/Decision.

The auditor:

- Reports on the eligibility of costs by carrying out procedures set in the guidance
- Confirms the legal status of the beneficiary(ies), and accordingly the correct treatment of VAT
- Verifies the exchange rate applied for expenditure incurred in a currency other than the Euro, in accordance with the provisions of the Grant agreement/Decision
- Examines whether the beneficiary(ies) has complied with the rules of accounting and record keeping
- Confirms the amount of revenues declared in the Final Financial Report



## Audit certificate Type II (2)

### 2/ Percentage of total expenditure to be verified by the auditor:

Between 70 % and 85 % of the costs declared by the beneficiary in the Final Financial Report.

- The auditor ensures that the overall Expenditure Coverage Ratio (ECR), representing the total amount of expenditure verified by the auditor, is at least 70 % of the total amount of expenditure reported by the beneficiary. If the exception rate is greater than 10 %, the auditor is required to extend the verification procedure until the ECR is at least 85 %.

### 3/ Which auditor is allowed to perform the audit:

Any accountant that under the national legislation is recognized as auditor (e.g. in France both "*commissaire aux comptes*" and "*expert comptable*").

For public bodies: Competent Public Officer.

## Most frequent/significant error

- **Missing or inadequate supporting documents**  
(staff, travel & subsistence, subcontracting headings)
  
- **Non-compliance with the eligibility rules of the program**
  - ✓ claimed outside the eligibility period,
  - ✓ not foreseen in the budget,
  - ✓ cost exceeding budget headings,
  - ✓ ineligible VAT,
  - ✓ non-compliance with the subcontracting rules
  
- **Costs over claimed**
- **Incorrect exchange rate**
- **Documents without a clear reference to the project**

# Which documents have to be kept?

- Keep all the supporting documents:
  - ✓ For all the headings and no matter which co-beneficiary incurred the costs
  - ✓ From the **beginning** of the project **up to 5 years** following the payment of the balance, and **for 3 years** in case of low value grants (<60,000€).
- **Examples** of supporting documents that should be checked by the auditors:
  - ✓ **Staff:** employment contract; pay slips; official payroll; well detailed timesheets signed; proof of presence to meetings and events; extract of official accounting books with reference to staff; bank statements.
  - ✓ **Travel & subsistence:** travel (e-)tickets; (e-) boarding pass; invoices (hotels, restaurants, travel agency); signed receipts by the travelling person receiving an allowance; proof of payments, bank transfers upon request, signed attendance lists to events.

**!!! Clear reference to the project or directly attributable to the project has to be mentioned**

## Frequently asked questions (1)

- *"In case of multi-beneficiaries grant agreement, may I have several audit certificates produced by different auditors for each co-beneficiary?"*

Answer: no. It remains under the responsibility of the coordinator to select and contract the auditor that will produce the consolidated audit report covering the costs of the action.

- *"Can the coordinator's competent public officer certify also the co-beneficiaries costs?"*

Answer: in line with the provisions of the Financial Regulation (art.207(3) RAP, public bodies have the right to choose either an external auditor or a competent public officer. These provisions allow the coordinator's competent public officer to certify also the co-beneficiaries costs.

## Frequently asked questions (2)

- *"It is possible to accept an audit certificate prepared by a public body for a private beneficiary (private law body)?"*

Answer: yes, provided that 1) there is a clear role of supervision between the public and private body and 2) that the terms of the audit procedure are respected (no conflict of interest and respect of independence).

- *"Which is the workflow to process audit certificates accompanying the Final reports?"*

Answer: the Agency will process with two verifications:

1. Admissibility criteria (type I and II)
2. Quality of the auditor reporting

## Frequently asked questions (3)

### 1. Admissibility criteria (type I and II):

- ✓ External auditor/ Competent Public Officer **independent** from beneficiary and **qualified** being not in situation of **conflict of interest**;
- ✓ Use of the **reporting format** as provided in the Guidance Notes:
- ✓ - **Cover letter** signed by the beneficiary and the auditor
- ✓ - Annex 1: **Information** about the Grant Agreement/Decision
- ✓ - Annex 2: Listing of **specific procedure** to be performed
- ✓ - Annex 3: **Compulsory Report Format + costs breakdown (Financial report)** relating to the action **dated and signed** by the beneficiary and **countersigned** by the auditor

**A negative response to one or other of the conditions listed above involves the rejection of report.**

## Frequently asked questions (4)

### 2. Quality of the auditor reporting (type I and II):

- ✓ Percentage of total expenditure verified (Expenditure Coverage Ratio: Type I = 100 %; Type II = between 70% and 85%)
- ✓ No discrepancies/exceptions identified by the auditor;
- ✓ Minor discrepancies/exceptions identified by the auditor;
- ✓ Major discrepancies/exceptions identified by the auditor;

Depending of the risk assessment, the Agency may launch a financial desk review check of the Financial statements declared with the Final report (random or ad hoc sampling) and verify the compliance of information provided by the auditor.

# Audit certificates- What to do generally with the results?

1. Audit certificate shows no/non-significant issues. Operational unit checks that audit certificate is of good quality and in line with requirements. There are no indications of other risks for this grant project and/or beneficiary. Operational unit can proceed to balance payment.
2. Audit certificate shows significant issues. Operational unit checks that audit certificate is of good quality and in line with requirements. Operational unit takes follow-up actions (e.g. reduce eligible costs declared in final report, ask beneficiary for clarification if in doubt, etc.) but can rely on work already done by auditors that provided the audit certificate.



# Audit certificates – Will it work?

It is too early to say but:

- Given the most frequent, recurrent error being inadequate or missing supporting documentation, audit certificates should assist the grant beneficiaries in declaring more eligible costs in their final (financial) reports
- Given the type of grants and grant beneficiaries under many of the Agency's programmes and actions, the introduction of audit certificates will be a new control requirement for many of them.

During this year, the work will start to collect feedback on the impact of audit certificates. Did it reduce error rates? Did it reduce time limit for payments?

# Evaluation of Controls

## How to evaluate controls:

- Are the controls in place? Are we compliant with the requirements?
- Do they work as intended in practise, meaning are they effective?
- Are they efficient? How about cost and benefit linked to risk?
- Are they sufficient?
- Are they targeted for the high-risk areas/activities?



## What if control strategy is not working?

**If**, during implementation, **the level of error is persistently high**, the Agency shall identify the weaknesses in the control systems, analyse the costs and benefits of possible corrective measures and take or propose appropriate action, such as **simplification of the applicable provisions, improvement of the control systems** and redesign of the programme or delivery systems.

Financial Regulation as of 2013 – Article 32 (5)

# TIPS

- Read carefully your **Grant Agreement** and the **Guidance notes**.
- When choosing an auditor, check carefully the **cumulative requirements**: independence, qualifications and non-conflict of interest.
- Before submitting the report of Factual Findings on the Final Financial Report double-check if all **admissibility criteria** are fulfilled.
- Keep your **accounting** and **internal control** systems **transparent**.
- Be careful with the **payments to co-beneficiaries**. Check and keep copy of **all** payments to the co-beneficiaries.

# TIPS

- Before issuing the final report, double-check your accounting records and documentation.
- Keep all the supporting documents (**for you and your co-beneficiaries**) from the beginning up to 5 years after closure of the project by the final payment or recovery order.
- In case of doubts relating to the Report of Factual Findings or to the qualification of your auditor or for any other reasons, please contact directly your project officer.

# Questions?

