

Annex IX: Financial Audit

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1. Introduction

This Annex sets out the requirements and the methodology applicable to the Financial Audits, as specified in article I.6.1 (d) of the Contract.

Section 2 of this Annex refers to the Terms of Reference ("ToR") whose provisions shall be included by the Final Beneficiary in the service contract to be signed with an independent Auditor (the "**Auditor**") following the procurement process to subcontract the Financial Audit. Copy of the service contract signed by the Final Beneficiary and the Auditor, including the provisions set in Section 2 of this Annex, shall be provided by the Final Beneficiary to the Bank. The service contract with the Auditor shall be awarded in accordance with Article II.7.

Section 3 of this Annex refers to the Independent Report of Factual Findings and Section 4 refers to the Standard Factual Findings to be followed by the Auditor. These documents must be produced by the Auditor and delivered by the Final Beneficiary to the Bank.

Finally, Section 5 of this Annex sets out the methodology to be used in the sampling processes related to the Financial Audit.

The documents included in Section 3 and 4 shall be produced and signed by the Auditor and sent by the Final Beneficiary with the final implementation report.

2. Terms of Reference for an Independent Report of Factual Findings on costs and investment amounts declared under ELENA Project Development Services Contract

This document sets out the 'Terms of Reference (ToR)' under which

[insert name of the final beneficiary] ('the Final Beneficiary')]

agrees to engage

[insert legal name of the auditor] ('the Auditor')

to produce an independent report of factual findings ('the Report') concerning the Financial Statements³⁸ drawn up by the *[Final Beneficiary]* for the ELENA Project Development Services Contract *[insert number of the Contract, title of the action, acronym and duration from/to]* ('the Contract'), and

to issue a 'Audited Financial Statement (AFS)' referred to in Article II.14.2 of the Contract based on the compulsory reporting template stipulated by the European Investment Bank (the "Bank").

The Contract has been concluded under the ELENA Facility between the *[Final Beneficiary]* and the Bank.

The Bank is mentioned as a signatory of the Contract with the Beneficiary only. The Bank is not a party to this engagement.

2.1 Subject of the engagement

With the final implementation report, to be submitted 30 (thirty) calendar days following the end of the reporting period in question, the Final Beneficiary shall submit a AFS as reimbursement of actual costs and unit costs calculated on the basis of its usual cost accounting practices (see Article II.10 of the Contract). The AFS shall cover all reporting periods and all cost categories. In addition, the AFS has to cover also the submitted list of the supported eligible Investment Projects and their amount (see Article I.4.4 of the Contract).

The AFS is composed of two separate documents:

- The copy of the Contract related to the Audited Financial Statement signed by the Final Beneficiary and the Auditor;
- The Auditor's Independent Report of Factual Findings ('the Report') to be issued on the Auditor's letterhead, dated, stamped and signed by the Auditor (or the competent public officer) which includes the agreed-upon procedures ('the Procedures') to be performed by the Auditor, and the standard factual findings ('the Findings') to be confirmed by the Auditor.

The AFS shall be included in the final report in accordance with Article I.6.1 of the Contract, and therefore the request for final payment cannot be made without the AFS. However, the payment for reimbursement of costs covered by the AFS does not preclude the Bank, the Commission, the European Anti-Fraud Office and the European Court of Auditors from carrying out checks, reviews, audits and investigations in accordance with Article II.14.4 of the Contract.

³⁸ By which PDS costs and amount of supported investments under the Contract are declared (see template 'Model Financial Statements' Table A.4.3 and Table A.4.4 in annex IV of the Contract).

2.2 Responsibilities

The *[Final Beneficiary]*:

- shall draw up the Financial Statements for the action financed by the Contract in compliance with the obligations under the Contract. The Financial Statements shall be drawn up according to the *[Final Beneficiary's]* accounting and book-keeping system and the underlying accounts and records and for the supported Investment Projects by substantiating documents;
- shall send the Financial Statements to the Auditor;
- is responsible and liable for the accuracy of the Financial Statements;
- is responsible for the completeness and accuracy of the information provided to enable the Auditor to carry out the Procedures. It shall provide the Auditor with a written representation letter supporting these statements. The written representation letter shall state the period covered by the statements and shall be dated;
- accepts that the Auditor cannot carry out the Procedures unless it is given full access to the *[Final Beneficiary's]* staff and accounting as well as any other relevant records and documentation.

The Auditor:

- *[Option 1 by default: is qualified to carry out statutory audits of accounting documents in accordance with Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC or similar national regulations].*
- *[Option 2 if the Final Beneficiary has an independent Public Officer: is a competent and independent Public Officer for which the relevant national authorities have established the legal capacity to audit the Final Beneficiary].*

The Auditor:

- shall be independent from the Final Beneficiary, in particular, it shall not have been involved in preparing the *[Final Beneficiary's]* Financial Statements;
- shall plan work so that the Procedures may be carried out and the Findings may be assessed;
- shall adhere to the Procedures laid down and the compulsory report format;
- shall carry out the engagement in accordance with this ToR;
- shall document matters which are important to support the Report;
- shall base its Report on the evidence gathered;
- shall submit the Report to the *[Final Beneficiary's]*.

The Bank sets out the Procedures to be carried out by the Auditor. The Auditor is not responsible for their suitability or pertinence. As this engagement is not an assurance engagement, the Auditor does not provide an audit opinion or a statement of assurance.

2.3 Applicable Standards

The Auditor shall comply with these Terms of Reference and with³⁹:

- the International Standard on Related Services ('ISRS') 4400 *Engagements to perform Agreed-upon Procedures regarding Financial Information* as issued by the International Auditing and Assurance Standards Board (IAASB);

³⁹ Supreme Audit Institutions applying INTOSAI-standards may carry out the Procedures according to the corresponding International Standards of Supreme Audit Institutions and code of ethics issued by INTOSAI instead of the International Standard on Related Services ('ISRS') 4400 and the Code of Ethics for Professional Accountants issued by the IAASB and the IESBA.

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- the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA). Although ISRS 4400 states that independence is not a requirement for engagements to carry out agreed-upon procedures, the Bank requires that the Auditor also complies with the Code's independence requirements.

The Auditor's Report shall state that there is no conflict of interests in establishing this Report between the Auditor and the Final Beneficiary, and shall specify - if the service is invoiced - the total fee paid to the Auditor for providing the Report.

2.4 Reporting

The Report shall be written in English or French.

Under Article II.14.4 of the Contract, the Commission, the Bank, the European Anti-Fraud Office and the Court of Auditors have the right to audit any work that is carried out under the action and for which costs are declared from the European Union budget. This includes work related to this engagement. The Auditor shall provide access to all working papers (e.g. recalculation of hourly rates, verification of the time declared for the action, review of investment amount documentation) related to this assignment if the Commission, the Bank, the European Anti-Fraud Office or the European Court of Auditors requests them.

2.5 Timing

The Report shall be provided by [dd Month yyyy].

2.6 Other terms

[The [Final Beneficiary] and the Auditor can use this section to agree other specific terms, such as the Auditor's fees, liability, applicable law, etc. Those specific terms shall not contradict the terms specified above.]

[legal name of the Auditor]

[name & function of authorised representative]

[dd Month yyyy]

Signature of the Auditor

[legal name of the Final Beneficiary]

[name & function of authorised representative]

[dd Month yyyy]

Signature of the Final Beneficiary

3. Independent Report of Factual Findings on costs declared under ELENA Project Development Services Contract

(To be printed on the Auditor's letterhead)

To

[name of contact person(s)], [Position]
[[Final Beneficiary] name]
[Address]
[dd Month yyyy]

Dear [Name of contact person(s)],

As agreed under the terms of reference dated [dd Month yyyy]

with: [insert name of the final beneficiary] ('the Final Beneficiary'),

we

[name of the auditor] ('the Auditor'),

established at

[full address/city/state/province/country],

represented by

[name and function of an authorised representative],

have carried out the procedures agreed with you regarding the costs for project development services and the amount of supported investment projects declared in the Financial Statements⁴⁰ of the *Final Beneficiary's* concerning the project development services Contract [insert specific agreement reference: number, title of the action and acronym] ('the Contract'),

with

- a total cost for project development services declared of EUR [total amount] and
- a total amount of supported investment projects declared of EUR [total amount],

and

- a total of actual project development services costs in accordance with the ELENA cost eligibilities declared of EUR [sum of total actual project development costs audited] and
- a total, actual amount of supported investment projects substantiated through appropriate documentation of EUR [sum of total actual investment project costs audited] and
- with a sampling process developed in accordance with the methodology described in Section 5 of Annex IX, based on the figures provided by the final Beneficiary within the Financial Statements,

and hereby provide our Independent Report of Factual Findings ('the Report') using the compulsory report format agreed with you.

The Report

Our engagement was carried out in accordance with the terms of reference ('the ToR') appended to this Report. The Report includes the agreed-upon procedures ('the Procedures') carried out and the standard factual findings ('the Findings') examined.

⁴⁰ By which PDS costs and amount of supported investments under the Contract are declared (see template 'Model Financial Statements' Table A.4.3 and Table A.4.4 in annex IV of the Contract).

The Procedures were carried out solely to assist the Bank in evaluating whether the *Final Beneficiary's* costs for project development services and the amount of supported investment projects in the accompanying Financial Statements were declared in accordance with the Contract. The Bank draws its own conclusions from the Report and any additional information it may require.

The scope of the Procedures was defined by the Bank. Therefore, the Auditor is not responsible for their suitability or pertinence. Since the Procedures carried out constitute neither an audit nor a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, the Auditor does not give a statement of assurance on the Financial Statements.

Had the Auditor carried out additional procedures or an audit of the Final Beneficiary's Financial Statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to its attention and would have been included in the Report.

Not applicable Findings

We examined the Financial Statements stated above and considered the following Findings not applicable:

Explanation (to be removed from the Report):

If a Finding was not applicable, it shall be marked as 'N.A.' ('Not applicable') in the corresponding row on the right-hand column of the table and means that the Finding did not have to be corroborated by the Auditor and the related Procedure(s) did not have to be carried out.

The reasons of the non-application of a certain Finding shall be one of the below i.e.

- i) if no cost was declared under a certain category then the related Finding(s) and Procedure(s) are not applicable;*
- ii) if the condition set to apply certain Procedure(s) are not met the related Finding(s) and those Procedure(s) are not applicable. For instance, for Partners with accounts established in a currency other than euro' the Procedure and Finding related to 'beneficiaries with accounts established in euro' are not applicable.*

List here all Findings considered not applicable for the present engagement and explain the reasons of the non-applicability.

....

Exceptions

Apart from the exceptions listed below, the *Final Beneficiary* provided the Auditor all the documentation and accounting information needed by the Auditor to carry out the requested Procedures and evaluate the Findings.

Explanation (to be removed from the Report):

- If the Auditor was not able to successfully complete a procedure requested, it shall be marked as 'E' ('Exception') in the corresponding row on the right-hand column of the table. The reason such as the inability to reconcile key information or the unavailability of data that prevents the Auditor from carrying out the Procedure shall be indicated below.*
- If the Auditor cannot corroborate a standard finding after having carried out the corresponding procedure, it shall also be marked as 'E' ('Exception') and, where possible, the reasons why the Finding was not fulfilled and its possible impact shall be explained here below.*

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List here any exceptions and add any information on the cause and possible consequences of each exception, if known. If the exception is quantifiable, include the corresponding amount.

....

Example (to be removed from the Report):

1. The Final Beneficiary was unable to substantiate the Finding number 1 on ... because ...
2. Finding number 9 was not fulfilled because the methodology used by the Final Beneficiary to calculate unit costs was different from the one approved by the Bank. The differences were as follows: ...
3. After carrying out the agreed procedures to confirm the Finding number 8, the Auditor found a difference of EUR _____. The difference can be explained by ...

Further Remarks

In addition to reporting on the results of the specific procedures carried out, the Auditor would like to make the following general remarks:

Example (to be removed from the Report):

1. Regarding Finding number 2 the conditions for personnel costs record were considered as fulfilled because ...
2. In order to be able to confirm the Finding number 34 we carried out the following additional procedures:

Use of this Report

This Report may be used only for the purpose described in the above objective. It was prepared solely for the confidential use of the [Final Beneficiary] and the Bank, and only to be submitted to the Bank in connection with the requirements set out in Article II.14.3 of the Contract. The Report may not be used by the Final Beneficiary or by the Bank for any other purpose, nor may it be distributed to any other parties. The Bank may only disclose the Report to authorised parties, in particular to the European Anti-Fraud Office (OLAF) and the European Court of Auditors.

This Report relates only to the Financial Statements submitted to the Bank by the [Final Beneficiary] for the Contract. Therefore, it does not extend to any other of the Final Beneficiary's Financial Statement(s).

There was no conflict of interest⁴¹ between the Auditor and the Final Beneficiary in establishing this Report.

The total fee paid to the Auditor for providing the Report is EUR _____ (including EUR _____ of [deductible/non-deductible] VAT).

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

[legal name of the Auditor]

[name and function of an authorised representative]

[dd Month yyyy]

Signature of the Auditor

⁴¹ A conflict of interest arises when the Auditor's objectivity to establish the certificate is compromised in fact or in appearance when the Auditor for instance:

- was involved in the preparation of the Financial Statements;
- stands to benefit directly should the certificate be accepted;
- has a close relationship with any person representing the Partner;
- is a director, trustee or partner of the Partner; or
- is in any other situation that compromises his or her independence or ability to establish the certificate impartially.

4. Agreed-upon procedures to be performed and standard factual findings to be confirmed by the Auditor

The Bank reserves the right to i) provide the auditor with additional guidance regarding the procedures to be followed or the facts to be ascertained and the way in which to present them (this may include sample coverage and findings) or to ii) change the procedures, by notifying the Final Beneficiary in writing. The procedures carried out by the auditor to confirm the standard factual finding are listed in the table below.

The 'result' column has three different options: 'C', 'E' and 'N.A.':

- 'C' stands for 'confirmed' and means that the auditor can confirm the 'standard factual finding' and, therefore, there is no exception to be reported;
- 'E' stands for 'exception' and means that the Auditor carried out the procedures but cannot confirm the 'standard factual finding', or that the Auditor was not able to carry out a specific procedure (e.g. because it was impossible to reconcile key information or data were unavailable);
- 'N.A.' stands for 'not applicable' and means that the Finding did not have to be examined by the Auditor and the related Procedure(s) did not have to be carried out. The reasons of the non-application of a certain Finding shall be obvious i.e. i) if no cost was declared under a certain category then the related Finding(s) and Procedure(s) are not applicable; ii) if the condition set to apply certain Procedure(s) are not met then the related Finding(s) and Procedure(s) are not applicable. For instance, for 'beneficiaries with accounts established in a currency other than the euro' the Procedure related to 'beneficiaries with accounts established in euro' is not applicable.

Ref	Procedures	Standard factual finding	Result (C / E / N.A.)
A	ACTUAL PERSONNEL COSTS AND UNIT COSTS CALCULATED BY THE FINAL BENEFICIARY IN ACCORDANCE WITH ELENA ELIGIBILITIES		
	The Auditor draws a sample of persons whose costs were declared in the Financial Statement to carry out the procedures indicated in the consecutive points of this section A. <i>(The sample should be sized according to the methodology defined in Section 5 of this Annex and be selected randomly)</i> The Auditor sampled _____ people out of the total of _____ people, representing EUR _____ of staff costs.		
A.1	PERSONNEL COSTS For the persons included in the sample and working under an employment contract or equivalent act (general procedures for individual actual personnel costs and personnel costs declared as unit costs) To confirm standard factual findings 1-5 listed in the next column, the Auditor reviewed the following information/documents provided by the Final Beneficiary:	1) The employees were i) directly hired by the Final Beneficiary in accordance with its national legislation, ii) under the Final Beneficiary's sole technical supervision and responsibility, iii) remunerated in accordance with	

	- a list of the persons included in the sample indicating the period(s) during which they worked for the Action, their position (classification or category) and type of contract; - the total number of payslips of the employees included in the sample; - reconciliation of the personnel costs declared in the Financial Statement(s) with the accounting system (project accounting and general ledger) and payroll system; - information concerning the employment status and employment conditions of personnel included in the sample, in particular their employment contracts or equivalent; - the Final Beneficiary's usual policy regarding payroll matters (e.g. salary policy, overtime policy, variable pay); - applicable national law on taxes, labour and social security; and, - any other document that supports the personnel costs declared. The Auditor also verified the eligibility of all components of the retribution (see Article II.10.1 of the Contract) and recalculated the personnel costs for employees included in the sample.	the Final Beneficiary's usual practices, and iv) for existing staff a new contract or a side letter was signed, as referred in Article II.10.1 of the Contract.
	<u>For personnel seconded by a third party and included in the sample (not sub-contractors)</u> To confirm standard factual findings 6-8 listed in the next column, the Auditor reviewed following information/documents provided by the Final Beneficiary: their secondment contract(s) notably regarding costs, duration, work description, place of work and ownership of the results; - if there is reimbursement by the Final Beneficiary to the third party for the resource made available: any documentation that supports the costs declared (e.g. contract, invoice, bank payment, and proof of registration in its accounting/payroll, etc.) and reconciliation of the Financial Statement(s) with the accounting system (project accounting and general ledger) as well as any proof that the amount invoiced by the third party did not include any profit; - any other document that supports the costs declared (e.g. invoices, etc.).	2) Personnel costs were recorded in the Final Beneficiary's accounts/payroll system. 3) Costs were adequately supported and reconciled with the accounts and payroll records. 4) Personnel costs did not contain any ineligible elements. 5) There were no discrepancies between the personnel costs charged to the Action and the costs recalculated by the Auditor. 6) Seconded personnel reported to the Final Beneficiary and worked on the Final Beneficiary's premises (unless otherwise agreed with the Beneficiary). 7) The results of work carried out belong to the Final Beneficiary, or if not, the Final Beneficiary has obtained all necessary rights to fulfil its obligations as if those results were generated by itself. <i>If personnel is seconded against payment:</i> 8) The costs declared were supported with documentation and recorded in the Final Beneficiary's accounts. The third party did not include any profit.

A.2	PRODUCTIVE HOURS To confirm standard factual findings 9-15 listed in the next column, the Auditor reviewed relevant documents, especially national legislation, labour agreements and contracts and time records of the persons included in the sample, to verify that: - the annual productive hours applied were calculated in accordance with one of the methods described below, - the full-time equivalent (FTEs) ratios for employees not working full-time were correctly calculated.	9) The Final Beneficiary applied method [choose one option and delete the others] [A: 1720 hours] [B: the 'total number of hours worked'] [C: 'annual standard productive hours', used correspond to usual accounting practices]
	If the Final Beneficiary applied method B, the auditor verified that the correctness in which the total number of hours worked was calculated and that the contracts specified the annual workable hours. If the Final Beneficiary applied method C, the auditor verified that the 'annual productive hours' applied when calculating the hourly rate were equivalent to at least 90 % of the 'standard annual workable hours'. The Auditor can only do this if the calculation of the standard annual workable hours can be supported by records, such as national legislation, labour agreements, and contracts.	10) Productive hours were calculated annually. 11) For employees not working full-time the full-time equivalent (FTE) ratio was correctly applied. If the Final Beneficiary applied method B.
	FINAL BENEFICIARY'S PRODUCTIVE HOURS' FOR PERSONS WORKING FULL TIME SHALL BE ONE OF THE FOLLOWING METHODS: A. 1720 ANNUAL PRODUCTIVE HOURS (PRO-RATA FOR PERSONS NOT WORKING FULL-TIME) B. THE TOTAL NUMBER OF HOURS WORKED BY THE PERSON FOR THE FINAL BENEFICIARY IN THE YEAR (THIS METHOD IS ALSO REFERRED TO AS 'TOTAL NUMBER OF HOURS WORKED' IN THE NEXT COLUMN). THE CALCULATION OF THE TOTAL NUMBER OF HOURS WORKED WAS DONE AS FOLLOWS: ANNUAL WORKABLE HOURS OF THE PERSON ACCORDING TO THE EMPLOYMENT CONTRACT, APPLICABLE LABOUR AGREEMENT OR NATIONAL LAW PLUS OVERTIME WORKED MINUS ABSENCES (SUCH AS SICK LEAVE OR SPECIAL LEAVE). C. THE STANDARD NUMBER OF ANNUAL HOURS GENERALLY APPLIED BY THE FINAL BENEFICIARY FOR ITS PERSONNEL IN ACCORDANCE WITH ITS USUAL COST ACCOUNTING PRACTICES (THIS METHOD IS ALSO REFERRED TO AS 'STANDARD ANNUAL PRODUCTIVE HOURS' IN THE NEXT COLUMN). THIS NUMBER SHALL BE AT LEAST 90% OF THE STANDARD ANNUAL WORKABLE HOURS.	12) The calculation of the number of 'annual workable hours', overtime and absences was verifiable based on the documents provided by the Final Beneficiary. 13) The Final Beneficiary calculates the hourly rates per full financial year following procedure A.3 (method B is not allowed for beneficiaries calculating hourly rates per month). If the Final Beneficiary applied method C.
	'ANNUAL WORKABLE HOURS' MEANS THE PERIOD DURING WHICH THE PERSONNEL SHALL BE WORKING, AT THE EMPLOYER'S DISPOSAL AND CARRYING OUT HIS/HER ACTIVITY OR DUTIES UNDER THE EMPLOYMENT CONTRACT, APPLICABLE COLLECTIVE LABOUR AGREEMENT OR NATIONAL WORKING TIME LEGISLATION.	14) The calculation of the number of 'standard annual workable hours' was verifiable based on the documents provided by the Final Beneficiary

		15) The 'annual productive hours' used for calculating the hourly rate were consistent with the usual cost accounting practices of the Final Beneficiary and were equivalent to at least 90 % of the 'annual workable hours'.
A.3	HOURLY PERSONNEL RATES The Auditor: - reviewed the documentation provided by the Final Beneficiary, including manuals and internal guidelines that explain how to calculate hourly rates; - recalculated the hourly rates of staff included in the sample (recalculation of all hourly rates if the Final Beneficiary uses annual rates, recalculation of three months selected randomly for every year and person if the Final Beneficiary uses monthly rates) following the results of the procedures carried out in A.1 and A.2; (only in case of monthly rates) confirmed that the time spent on parental leave is not deducted, and that, if parts of the basic remuneration are generated over a period longer than a month, the Final Beneficiary has included only the share which is generated in the month. <u>"UNIT COSTS CALCULATED BY THE FINAL BENEFICIARY IN ACCORDANCE WITH ITS USUAL COST ACCOUNTING PRACTICES":</u> IT IS CALCULATED BY DIVIDING THE TOTAL AMOUNT OF PERSONNEL COSTS OF THE CATEGORY TO WHICH THE EMPLOYEE BELONGS VERIFIED IN LINE WITH PROCEDURE A.1 BY THE NUMBER OF FTE AND THE ANNUAL TOTAL PRODUCTIVE HOURS OF THE SAME CATEGORY CALCULATED BY THE FINAL BENEFICIARY IN ACCORDANCE WITH PROCEDURE A.2. <u>HOURLY RATE FOR INDIVIDUAL ACTUAL PERSONAL COSTS:</u> IT IS CALCULATED FOLLOWING ONE OF THE TWO OPTIONS BELOW: A) [OPTION BY DEFAULT] BY DIVIDING THE ACTUAL ANNUAL AMOUNT OF PERSONNEL COSTS OF AN EMPLOYEE VERIFIED IN LINE WITH PROCEDURE A.1 BY THE NUMBER OF ANNUAL PRODUCTIVE HOURS VERIFIED IN LINE WITH PROCEDURE A.2 (FULL FINANCIAL YEAR HOURLY RATE); B) BY DIVIDING THE ACTUAL MONTHLY AMOUNT OF PERSONNEL COSTS OF AN EMPLOYEE VERIFIED IN LINE WITH PROCEDURE A.1 BY 1/12 OF THE NUMBER OF ANNUAL PRODUCTIVE HOURS VERIFIED IN LINE WITH PROCEDURE A.2 (MONTHLY HOURLY RATE).	16) The individual rates re-calculated by the Auditor were the same as the rates applied by the Final Beneficiary (considering ELENA eligible staff costs). 17.1) The Beneficiary used only one option (per full financial year or per month) throughout each financial year examined. 17.2) The hourly rates do not include additional remuneration (e.g. overhead costs, travel costs shall be excluded).

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A.4	TIME RECORDING SYSTEM To verify that the time recording system ensures the fulfilment of all minimum requirements and that the hours declared for the action were correct, accurate and properly authorised and supported by documentation, the Auditor made the following checks for the persons included in the sample that declare time as worked for the action on the basis of time records: • description of the time recording system provided by the Final Beneficiary (registration, authorisation, processing in the HR-system); • its actual implementation; • time records were signed at least monthly by the employees (on paper or electronically) and authorised by the project manager or another manager; • the hours declared were worked within the project period; • there were no hours declared as worked for the action if HR-records showed absence due to holidays or sickness (further cross-checks with travels are carried out in B.1 below); • the hours charged to the action matched those in the time recording system. ONLY THE HOURS WORKED ON THE ACTION CAN BE CHARGED. ALL WORKING TIME TO BE CHARGED SHOULD BE RECORDED THROUGHOUT THE DURATION OF THE PROJECT, ADEQUATELY SUPPORTED BY EVIDENCE OF THEIR REALITY AND RELIABILITY.	18) All persons recorded their time dedicated to the action on a daily/ weekly/ monthly basis using a paper/computer-based system. (delete the answers that are not applicable) 19) Their time-records were authorised at least monthly by the project manager or other superior. 20) Hours declared were worked within the project period and were consistent with the presences/absences recorded in HR-records. 21) There were no discrepancies between the number of hours charged to the action and the number of hours recorded.
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B	COSTS OF SUBCONTRACTING	
B.1	The Auditor obtained the detail/breakdown of the costs of each subcontract and sampled cost items selected randomly, representing EUR [] of subcontracting costs. (The sample should be sized according to the methodology defined in Section 5 of this annex and be selected randomly.) To confirm standard factual findings 22-26 listed in the next column, the Auditor reviewed the following for the items included in the sample: - the use of sub-contractors was foreseen in Annex I of the Contract; - subcontracting costs were declared in the subcontracting category of the Financial Statement; - supporting documents on the selection and award procedure were followed; - the Final Beneficiary ensured best value for money (key elements to appreciate the respect of this principle are the award of the subcontract to the bid offering best price-quality ratio, under conditions of transparency and equal treatment. In case an existing framework contract was used the Final Beneficiary ensured it was established on the basis of the principle of best value for money under conditions of transparency and equal treatment). In particular, - if the Final Beneficiary acted as a contracting authority within the meaning of Directive 2004/18/EC (or 2014/24/EU) or of Directive 2004/17/EC (or 2014/25/EU), the Auditor verified that the applicable national law on public procurement was followed and that the subcontracting complied with the Contract. - if the Final Beneficiary did not fall under the above-mentioned category the Auditor verified that the Final Beneficiary followed procurement procedures equivalent to the ones presented in the "Optional guidance for procurement undertaken by Final Beneficiaries with Private Status" in annex VIII of the Contract. For the items included in the sample the Auditor also verified that: - there were signed agreements between the Final Beneficiary and the subcontractor; - there was evidence that the services were provided by the subcontractor.	22) The use of claimed subcontracting costs was foreseen in Annex I and costs were declared in the Financial Statements under the subcontracting category. 23) Procurement rules, principles and guides were followed. There were documents of requests to different providers, different offers and assessment of the offers before selection of the provider in line with the applicable European Public Procurement Directives or, for private promoters, with the guidance procedures in annex VIII of the contract. Subcontracts were awarded in accordance with the principle of best value for money. (When different offers were not collected the Auditor explains the reasons provided by the Final Beneficiary under the caption "Exceptions" of the Report. The Bank will analyse this information to evaluate whether these costs might be accepted as eligible) 24) Subcontracts costs are in line with Article II.10 of the Contract

		25) All subcontracts supported by signed agreements between the Final Beneficiary and the subcontractor.	26) There was evidence that the services were provided by the subcontractors.	
C	USE OF EXCHANGE RATES			
C.1	For Final Beneficiaries with accounts established in a currency other than euros The Auditor verified that the exchange rate used for converting the total amount of PDS costs in the financial statement from other currencies into euros were in accordance with the following rules established in the Contract Cost recorded in the accounts in a currency other than Euro shall be converted into Euro following the rules stipulated in the Contract in article II.11.1: "If the currency for the cost occurred is not in Euro, the conversion into Euro shall be determined using the relevant foreign exchange reference rates published by the European Central Bank (which are based on the daily concertation procedure between central banks within and outside the European System of Central Banks) applicable on the first working day of the month following the period covered by the financial statement.	27) The exchange rate used to convert other currencies into Euros were in accordance with the rules established in the Contract and there was no difference in the final figures for the total amount of PDS costs.		
D	INVESTMENT PROGRAMME			
D.1	The Auditor sampled _____ Investment Projects, representing EUR _____ of investment costs, in accordance with the description of the Investment Programme included in Annex I of the Contract, selected randomly. <i>(The sample should be sized according to the methodology defined in Section 5 of this annex and be selected randomly).</i> To confirm standard factual findings 34–38, listed in the next column, the Auditor reviewed the following for the items included in the sample: a) the investment project sector(s) was foreseen in Annex I of the Contract; b) the costs of the investment projects were declared in relevant Financial Statement; c) costs of the investment projects are eligible according to Annex III of the Contract; d) the implementation of the investment projects is compliant with Article I.4.4 of the Contract;	28) The investment projects was foreseen in Annex I of the Contract. 29) The costs of the investment projects were declared in the relevant Financial Statement 30) The costs of the investment projects are eligible according to Annex III of the Contract. 31) The implementation of the investment projects is compliant with the		

e)	the Final Beneficiary made available supporting information and documents (e.g. invoices, contracts, tender documents) confirming the implementation of the investment projects.	32) The Final Beneficiary made available supporting information and documents (e.g. invoices, contracts, tender documents) confirming the implementation of the investment projects.
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5. Sampling Approaches for ELENA Audited Financial Statements

As described in Article I.6.1 of the Contract, the final implementation report shall include an audited financial statement (Audit) covering the Project Development Service costs and the Investment Projects, for all ELENA projects.

This document describes the minimum requirements and methodologies applicable to the referred Audits, and shall be used by the Final Beneficiary to define the terms of reference to subcontract those services.

General Principles:

Final Beneficiaries shall apply the following stratification strategy:

1. The methodology shall be applied individually for each cluster identified;
2. For staff cost, two clusters shall be considered:
 - 2.1 Direct staff;
 - 2.2 Seconded staff;
3. For subcontracts, three clusters shall be considered⁴²:
 - 3.1 $\leq$ EUR 35k;
 - 3.2 $>$ EUR 35k and $\leq$ EUR 214k;
 - 3.3 $>$ EUR 214k;
4. For Investment Projects, three clusters shall be considered⁴³:
 - 4.1 $\leq$ EUR 35k;
 - 4.2 $>$ EUR 35k and $\leq$ EUR 500k;
 - 4.3 $>$ EUR 500k.

The thresholds previously referred shall only be applied for the sampling process related to the audited financial statements.

Note:

This document only refers to the sampling procedures to be applied in the financial audit.

Final Beneficiaries shall tender the Project Development Services and the Investor(s) shall tender the Investment Projects in accordance with the national public procurement rules or in accordance with the Bank's Guide to procurement, as applicable.

⁴² Considering the total value of each subcontract;

⁴³ Considering the total value or the estimated value of each Investment Project

Sampling Methodology:

The following methodology shall be applied individually for each cost category (staff costs, subcontracts and investment projects).

1. Minimum sample size calculation: Considering the total number of the population (subcontracts, staff members or investment projects), please calculate the minimum size of each sample. Full coverage is required if there are fewer than 10 items, otherwise the sample shall have a minimum of 10 item, or 10% of the total, whichever number is highest. The result shall be rounded up to units.
2. Sample size per cluster: Calculate the number of samples for each cluster, multiplying the minimum size of the sample (as described in 1) by the share of each cluster in the population. The result shall be rounded up to units;
3. Final Sample Size: The final sample size will be the sum of the number of samples per cluster (as described in point 2). During the audit process, the auditor shall comply with the final sample size and with the sample size per cluster (as calculated in point 2);
4. Staff costs sampling: If staff costs both include direct staff and seconded staff, two cluster shall be considered and the sample shall include elements from both. Their share in the sample shall be the same than their share in the population (as described in point 2);

The auditor shall randomly select the individual financially supported activities to be audited.

For ELENA projects included in the ELENA Residential envelope, the Final Beneficiary can request to the Bank, with the latest Progress Report, to use an alternative sampling methodology fulfilling the requirements described below. The request shall include the description of the methodology to be adopted for each population (subcontracts, staff and investment projects, if applicable), highlighting the fulfilment of the requirements described in the standard or alternative sampling methodology, specifying the sample size for each one of the previously referred populations.

Example 1:

In the following table can be found the characterization of the number of Project Development Services subcontracts, number of staff and investment projects related to a hypothetical ELENA project, as report included in the Final Report.

PDS Overview							n.º of Investment Projects			
n.º of Subcontracts				n.º of Staff						
Total	≤ 35k	>35k and ≤ 214k	> 214k	Total	Direct	Seconded	Total	≤ 35k	>35k and ≤ 500k	> 500k
16	6	9	1	13	4	9	101	12	87	2

1. Minimum sample size calculation (minimum of 10 item, or 10% of the total, whichever number is highest):
 - a) Subcontracts: $10 \text{ or } 10\% \times 16 \rightarrow 10 \text{ or } 1.6 \rightarrow 10$
 - b) Staff: $10 \text{ or } 10\% \times 13 \rightarrow 10 \text{ or } 1.3 \rightarrow 10$
 - c) Investment Projects: $10 \text{ or } 10\% \times 101 \rightarrow 10 \text{ or } 10.1 \rightarrow 11$
2. Sample size per cluster (minimum of 10 item, or 10% of the total, whichever number is highest):
 - a) Subcontracts:
 - i) ≤ 35k: $10 \times \frac{6}{16} = 3.75 \rightarrow 4$
 - ii) > 35k and ≤ 214k: $10 \times \frac{9}{16} = 5.63 \rightarrow 6$
 - iii) > 214k: $10 \times \frac{1}{16} = 0.63 \rightarrow 1$
 - b) Staff:
 - i) Direct: $10 \times \frac{4}{13} = 3.08 \rightarrow 4$
 - ii) Seconded: $10 \times \frac{9}{13} = 6.92 \rightarrow 7$
 - c) Investment Projects:
 - i) ≤ 35k: $11 \times \frac{12}{101} = 1.31 \rightarrow 2$
 - ii) > 35k and ≤ 500k: $11 \times \frac{87}{101} = 9.48 \rightarrow 10$
 - iii) > 500k: $11 \times \frac{2}{101} = 0.22 \rightarrow 1$
3. Final sample size
 - a) Subcontracts: $4 + 6 + 1 = 11$,
 - b) Staff: $4 + 7 = 11$
 - c) Investment Projects: $2 + 10 + 1 = 13$

When sampling, and for each one of the populations, the auditor shall comply with the final sample size, as described in point 3, and with the sample size per cluster, as described in 2.

Example 2:

In the following table can be found the characterization of the number Project Development Services subcontracts, number of staff and investment projects related to a hypothetical ELENA project, as report included in the Final Report.

PDS Overview							n.º of Investment Projects			
n.º of Subcontracts				n.º of Staff						
Total	≤ 35k	>35k and ≤ 214k	> 214k	Total	Direct	Seconded	Total	≤ 35k	>35k and ≤ 500k	> 500k
6	1	1	4	9	1	8	1851	521	1328	2

1. Minimum sample size calculation (minimum of 10 item, or 10% of the total, whichever number is highest):
 - a) Subcontracts: $10 \text{ or } 10\% \times 6 \rightarrow 10 \text{ or } 0.6 \rightarrow 6$ (population is 6)
 - b) Staff: $10 \text{ or } 10\% \times 9 \rightarrow 10 \text{ or } 0.9 \rightarrow 9$ (population is 9)
 - c) Investment Projects: $10 \text{ or } 10\% \times 1851 \rightarrow 10 \text{ or } 185.1 \rightarrow 186$
2. Sample size per cluster (minimum of 10 item, or 10% of the total, whichever number is highest):
 - a) Subcontracts:
 - i) ≤ 35k: $6 \times \frac{1}{6} = 1 \rightarrow 1$
 - ii) > 35k and ≤ 214k: $6 \times \frac{1}{6} = 1 \rightarrow 1$
 - iii) > 214k: $6 \times \frac{4}{6} = 4 \rightarrow 4$
 - b) Staff:
 - i) Direct: $9 \times \frac{1}{9} = 1 \rightarrow 1$
 - ii) Seconded: $9 \times \frac{8}{9} = 8 \rightarrow 8$
 - c) Investment Projects:
 - i) ≤ 35k: $186 \times \frac{521}{1851} = 52.35 \rightarrow 53$
 - ii) > 35k and ≤ 500k: $186 \times \frac{1328}{1851} = 133.45 \rightarrow 134$
 - iii) > 500k: $186 \times \frac{2}{1851} = 0.20 \rightarrow 1$
3. Final sample size
 - a) Subcontracts: $1 + 1 + 4 = 6$
 - b) Staff: $1 + 8 = 9$
 - c) Investment Projects: $53 + 134 + 1 = 188$

When sampling, and for each one of the populations, the auditor shall comply with the final sample size, as described in point 3, and with the sample size per cluster, as described in 2.