

# Guidelines

## for Expenditure Verifications of projects (co-)financed by the Austrian Development Agency (ADA)

### Purpose of these Guidelines

The Guidelines are intended to assist Grant Recipients in defining Terms of Reference (ToR) for Expenditure Verifications of Projects (co-)financed by the Austrian Development Agency (ADA) under standard Grant Agreements<sup>1</sup>.

As reporting and auditing formats and standards may vary from country to country, the Guidelines only provide minimum requirements which can be complemented by additional terms according to local requirements, the respective project's needs or upon ADA's request.

In case of multi donor projects, prior consultation with all donors is required in order to meet all demands and to avoid duplication of efforts.

### Expenditure Verification

Expenditure Verification is understood as the work performed by the Auditor under the guidelines set out in this document. Even if sometimes referred to as an Audit, it must be emphasized that the approach of this Agreed-upon Procedures Engagement regarding the Expenditure Verification goes beyond the scope of a mere Audit on Financial Statements.

### Contractor

The Auditor is engaged by the Grant Recipient in the role of a Contractor who provides Terms of Reference (ToR) in accordance with these Guidelines. A written contract between Contractor and Auditor or an Engagement Letter is required.

### Procurement of the Auditor

Procurement regulations as stipulated in ADA's General Conditions of Grant Agreements apply. Auditors shall be changed on a regular basis, i.e. at least after five consecutive years.

### Minimum requirements for Auditors

The Auditor is a member of a national accounting or auditing body or institution which in turn is member of the International Federation of Accountants (IFAC)

or

The Auditor is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits himself/herself to undertake this Engagement in accordance with the IFAC standards and ethics.

The Auditor will employ staff with appropriate professional qualifications and suitable experience with IFAC standards and with experience in verifying financial information of entities comparable in size and complexity to the Grant Recipient.

The Auditor has sufficient knowledge of relevant laws, regulations and rules in the country concerned. This includes but is not limited to taxation, social security and labour regulations, accounting and reporting.

The Auditor will provide the Contracting Authority with CVs of the staff/experts involved in the expenditure verification. The CVs will include appropriate details for the purpose of the evaluation of the offer on the relevant specific experience for this expenditure verification and the qualifying work carried out in the past.

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<sup>1</sup> Any Grant Agreement where "General Terms and Conditions to the Austrian Development Agency's Grant Agreement for Support in the Field of Development Cooperation" apply.

## Audit Standards

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 regarding integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards. Although ISRS 4400 provides that independence is not a requirement for Agreed-upon procedures engagements, the Contracting Authority requires that the Auditor is independent from the Beneficiary and complies with the independence requirements of the IFAC Code of Ethics for Professional Accountants.

## Contractor's duties

The Contractor, i.e. the Grant Recipient, provides the Auditor with all necessary information to perform his/her work. Relevant documents must be specified in the Terms of Reference (ToR) which are annexed to the contract or Engagement Letter.

The following underlying documents are required as a minimum:

- Grant Agreement concluded between ADA and the Grant Recipient with all annexes, including contracts or Agreements between the Grant Recipient and his/her partners, if any
- Amendments to the Grant Agreement, if any
- Financial Statement

The Financial Statement (consisting of a summary and a detailed breakdown) includes a Budget vs. Expenditure comparison and a detailed voucher list classified according to the relevant budget lines and covers all project expenses and funds received from ADA, the Grant Recipient, other project partners or other donors. Revenues including accrued interest, if any, and calculations of conversions to the contract currency (generally Euro) are to be attested as well.

The Financial Statement covers all project expenses and funds received from ADA, the Grant Recipient, other project partners or other donors.

Contributions *in kind* are generally not part of the Project Budget and are thus not reflected in the Financial Statement.

If, in exceptional cases, the project budget includes expenses which cannot be verified by the Auditor, these expenses must be declared in the Terms of Reference (ToR) and in the Financial Statement.

The Budget vs. Expenditure comparison follows the approved budget and shows at least the same level of detail.

The Expenditure Coverage Ratio (ECR)<sup>2</sup> is defined in the Terms of Reference (ToR). 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%.

The Contractor must reserve the right to share the Expenditure Verification Report and its annexes with all donors.

ADA reserves the right to reject the Expenditure Verification Report if it does not comply with the required standards.

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<sup>2</sup> This ratio represents the total amount of expenditure to be verified expressed as a percentage of the total expenditure which has been subject of this

ADA may at any time require the submission of the original vouchers. The original vouchers must be available for *in situ* inspection by ADA at any time for a period of ten years starting from the end of the year during which the last instalment has been disbursed by ADA. ADA shall be allowed to inspect in detail the financial management of the Project at any time.

### **Procedures to be performed by the Auditor**

The Auditor verifies on the basis of original documents, if

- costs declared in the Financial Statement are justified by the relevant supporting documents
- costs meet eligibility criteria stipulated in the Grant Agreement and its annexes
- original vouchers are clearly associated with the project and the projects time frame
- all invoices have been settled and paid for
- financial resources have been used efficiently, cost effectively and solely for the purpose for which they were provided
- Generally Accepted Accounting Standards are met
- conversion of Currency has been calculated correctly
- accrued interest has been declared<sup>3</sup>
- expenses have been correctly assigned to budget items
- over expenditure, if any, lies within the thresholds stipulated in the Grant Agreement
- usage of budget funds under “unforeseen” or “contingency reserve” has been approved by ADA
- indirect costs<sup>4</sup>, if foreseen in the budget, have been calculated properly
- procurement regulations have been met
- other revenues originally not foreseen in the financial plan were registered or
- revenues foreseen in the financial plan were not realized
- the contract, terms and conditions have been complied with
- applicable tax laws and regulations have been complied with
- applicable Social and Labour Laws have been complied with
- an adequate, effective Internal Control System exists
- all assets and equipment have been incorporated in the asset list
- assets and equipment have been used for the project purposes
- project vehicles, if any, have been used according to the standards set out in the General Terms and Conditions of the Grant Agreement
- regulations on travel expenses have been followed
- sub-grants foreseen in the project document have been provided to third parties and have been properly accounted for on the basis of actual costs
- applicable visibility regulations have been adhered to
- recommendations from previous periods have been implemented

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<sup>3</sup> note that accrued interest has to be reimbursed to ADA

<sup>4</sup> Indirect costs (also named “Projektbegleitgelt, (PBE)”) are calculated proportionally to eligible direct costs and do not require further supporting documents. Audit costs are part of indirect costs. For details refer to “Guidelines indirect costs”.

- depreciation on investment goods that continue to be available to the Recipient after the end of the term of the Agreement has been properly calculated<sup>5</sup>
- equipment or services produced or provided by the Recipient itself have been charged at cost only (without any markup)<sup>6</sup>

## Reporting

The Auditor shall produce an Expenditure Verification Report which contains at least<sup>7</sup>:

- Title
- Addressee
- Brief description of the project and partner(s)
- Period covered by the report
- Total amount of budgeted and actual incomes
- Complete list of project funds transferred, including donors' names, dates and exchange rates
- Total amount of actual expenditures verified
- Expenditure Coverage Ratio
- Description of the procedures performed
- Factual findings
- Recommendations, if applicable
- Follow up of previous recommendations, if applicable
- Other relevant matters
- Date of the report
- Auditor's address and signature

The Report shall also comprise the following annexes:

- Financial Statement
- Bank account statements
- List of payable invoices, if any
- In case ineligible costs are detected, a list of respective vouchers
- Asset list
- If expenses contain Value Added Tax (VAT), the Auditor shall certify that Grant Recipient is not exempt from VAT and cannot reclaim it either

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<sup>5</sup> This applies to Business Partnerships only

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<sup>7</sup> For details on reporting please refer to ISRS 4400, issued by IFAC.