

Terms of Reference - APPEAR Audit Report for Academic, Advanced Academic and Extended Impact Partnership

The Austrian Partnership Programme in Higher Education and Research for Development – APPEAR is a programme of the Austrian Development Cooperation (ADC). The aim is to implement its strategy for support of higher education and research for development on an academic institutional level in the ADC’s priority countries and key regions.

Austria’s Agency for Education and Internationalisation (OeAD) has been commissioned by the Austrian Development Agency (ADA), the operational unit of the ADC, to implement APPEAR.

The APPEAR Office, based at OeAD, is in charge of administering all relevant programme procedures and monitoring the APPEAR projects.

These Terms of Reference (ToR)¹ have been compiled to guide the partner institution(s) of APPEAR funded projects (hereinafter also referred to as the ‘client’ who engages the auditor) and the external auditors engaged to audit the project funds.

Regulations and procedures stipulated in the **APPEAR grant contract** signed between the client and the OeAD (hereinafter also referred to as ‘grant contract’) including **Schedule A Guidelines for the Budget and Financial Report** (hereinafter also referred to as ‘financial guidelines’) concerning the external audit reports are mandatory.

1. Purpose and costs of the audit report

1.1. General principles

The audit report is an independent report of factual findings produced by an external auditor. The purpose is to provide the OeAD with a reasonable assurance that:

- All costs as well as all receipts declared in the financial statement (summary and detailed cost breakdown) are justified by the relevant supporting documents.
- All costs are incurred in the reporting period.
- The client has complied with the rules for accounting and record keeping in accordance with the grant contract.
- Sub-contracting and procurement costs comply with the related provisions.

Notwithstanding the procedures to be carried out, the client remains at all times responsible and accountable for the accuracy of the financial statement. A client that has been found guilty

¹ These ToR are based on the ‚Werkvertrag 0894-01/2020‘ of the APPEAR programme concluded between the Austrian Development Agency and the OeAD-GmbH, the General Terms and Conditions to the Austrian Development Agency’s Grant Agreement Support in the Field of Development Cooperation, the ‘Guidelines for Expenditure Verification of projects (co-)financed by the Austrian Development Agency’ (December 2021) and the ‘Guidance Notes for Reports of Factual Findings on the Final Financial Report’ of the European Commission.

of making false declarations or has been found to have seriously failed to meet its obligations under the grant contract shall be liable to reimbursement of funds according to the grant contract.

The auditor has a contractual relationship only with the recipient of APPEAR funds and not with the OeAD. The OeAD will not intervene in any dispute between the auditor and the client.

The auditor shall ensure that the work has been undertaken in accordance with:

- The International Standard on Related Services (ISRS) 4400 *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 OeAD requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

1.2. Requirements of the auditor

The external auditor has to meet the following requirements:

- The external auditor must be independent from the client.
- The external auditor must be qualified to carry out audits of accounting documents in accordance with national legislation and must be listed in the national register of auditors.
- In case of several partners in the eligible country/countries only one audit report that includes expenses of all partner institutions in these countries has to be submitted. In case this is not possible OeAD has to be consulted in advance.
- The local office of the Austrian Development Agency (ADA) can be consulted for recommendations on potential audit firms. The actual engagement of the auditor is the responsibility of the project coordinator; the decision should be based on the best price ratio and the availability of an audit firm.

1.3. Reimbursement of the audit costs

The costs of the audit report are eligible according to the budget of the grant contract and have to be included in the budget category 'other costs'.

The costs should take account of relevant market prices for similar services. Excessive or reckless audit expenditure will be rejected by OeAD.

The auditor invoices the client directly giving a breakdown of the amount of fees charged, travel and subsistence reimbursement(s) as well as the VAT applied.

The OeAD will not pay the costs of developing the methodology. The eligible costs are limited to the performance of the agreed-upon procedures and exclude any costs relating to consultancy for improvement or refinement of the methodology.

2. Practical guidelines

The present Terms of Reference (ToR), the templates for the Audit Report of Factual Findings and the engagement letter have to be considered. Further information and templates are available on the APPEAR website.

2.1. General

In order to avoid delays in the submission of the annual financial report, the client should select and contract the auditor well in advance. The engagement letter (see template on APPEAR website) has to be signed by the client and the auditor.

As a first step it is essential that the auditor fully understands the requirements for the audit report and is provided with all necessary documents (particularly the grant contract including the financial guidelines, and the present ToR).

2.2. Submission of the audit report

The following requirements apply to the audit report:

- The audit report (see template) is issued on the auditor's letterhead and dated, stamped and signed by the auditor.
- The audit report must be written in English, it has to be bound and pages need to be numbered.
- The audit report includes a financial statement (summary of the expenses and a detailed cost breakdown), dated and signed on every page by the client and countersigned by the auditor.

3. Procedures to be carried out for the audit report

The OeAD has designed these procedures in order to obtain standardised and comparable reports from all auditors, who are expected to carry out the procedures without adaptation for the particular circumstances of the client.

Based on the audit report the OeAD will take the relevant decisions on the eligibility of costs declared in the financial statement.

3.1. General procedures and specific guidance

The external auditor has to fulfill at least the following tasks:

- examination of the total financial management
- examination of the correctness of expenditure on the basis of original receipts (invalidation of original receipts)
- examination of plausibility of the expenses and allocation of the same to the items of the project budget
- examination of the compliance with the applicable procurement provisions

- examination of the compliance with the applicable provisions of labour law and social security law

3.1.1. Terms and conditions of the grant contract

The auditor obtains an understanding of the terms and conditions of the APPEAR programme by reviewing:

- the grant contract signed between the client and the OeAD, its schedules (particular attention should be paid to the project budget) and other relevant information as stated on the APPEAR website
- the financial guidelines
- the present ToR

3.1.2. Audit Report of Factual Findings and financial statement

The auditor reviews the following:

- The financial statement includes a budget vs. expenditure comparison (summary of expenses) and a detailed cost breakdown according to the relevant budget categories (staff, travel and subsistence, equipment and material, dissemination and other costs)
- The auditor verifies that the budget in the audit report corresponds² to the budget of the grant contract and whether there have been amendments to the grant contract. Particular attention should be paid to any amendment having an impact on the budget and/or reporting period.
- The financial statement covers all project related expenses and funds received from OeAD, other project partners or other donors.
- A depiction of the cash flow has to be included in the audit report.
- The financial statement has to indicate the exchange rate applied.
- Revenues including accrued interest, if any, are to be attested as well.

3.1.3. Rules for accounting and record keeping

The auditor reviews the following:

- The auditor examines whether the client has complied with the rules for accounting and record keeping in accordance with the financial guidelines.

² Some degrees of flexibility in the implementation of the budget are allowed. The rule proposed in the grant contract is that changes of up to (or minus) 10% of each budget category are allowed without reallocation and will remain eligible. Any changes within the limit specified in the grant contract didn't require the client's request for amending the grant contract.

Changes above the limit as well as new budget lines require a budget reallocation of the budget annexed to the grant contract. If such requests were not approved by the OeAD, the costs exceeding the limit and new budget items should be considered ineligible.

- The accounts kept by the client for the implementation of the project must be accurate, up-to-date and exhaustive (including all expenditure and revenues – if any).
- The auditor examines whether the client has a double-entry book-keeping system.
- The expenditure and revenue – if any – relating to the project must be easily identifiable and verifiable.
- It must be evident from the bookkeeping records and from the audit report that there is no double financing with external funding bodies.

The auditor is only required to perform the procedures listed above on the client’s accounting system and records and to see evidence of transactions between the client and APPEAR project partners recorded in the accounting system of the client e.g. transfers of project funds between the two – or more – entities.

3.2. Verification evidence

The client will allow the 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 project.

The client will allow the auditor access to all documents concerning the financial management of the project. It should also be noted further that it is the client’s responsibility to obtain the accounting documents necessary to enable the auditor to verify costs incurred by the client. Supporting documentation must be available in the form of original documents for the client rather than photocopies.

If the auditor encounters any discrepancies/exceptions in carrying out the performance of the procedures detailed in these ToR, e.g. missing supporting documentation, the general rule is for the cost item to be corrected in the financial statement to be submitted to the OeAD, i.e. the applicable cost is excluded from the financial statement.

There will be many instances where a discrepancy/exception is not easily rectified by excluding it from the financial statement, for example non-compliant³ sub-contracting costs or costs incurred during the eligibility period but not yet paid at the date of submission of the financial report or incurred after the end of eligibility (e.g. costs of audit report). In such instances, it must be stated in the report.

Where the auditor is in any doubt as to how to deal with a discrepancy/exception, it is recommended that it is reported in the audit report and with a sufficient amount of detail that would allow the OeAD to be able to make a decision on the issue.

3.3. Procedures to verify the expenditure

The following substantive procedures are required to be performed by the auditor to verify expenditure.

³ Non-compliant means that the sub-contracting costs do not respect the guidelines set in the grant contract, e.g. the required number of offers for the service to be rendered are missing.

3.3.1. Expenditure Coverage Ratio (ECR)

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 client in the financial statement. The auditor ensures that the overall ECR is at least 70%.

3.3.2. Direct costs

The auditor verifies that all direct costs are in accordance with the financial guidelines and that the criteria as set out below have been met:

- Costs actually incurred

The auditor verifies that the items declared in the financial statement were actually incurred by and pertain to the client. For this purpose, the auditor examines supporting documentation (e.g. invoices, contracts) and proof of payment. The auditor verifies that the monetary value of the expenditure items agrees with underlying documents (e.g. invoices, payroll documents).

The auditor verifies that the items were incurred during the reporting period. Invoices related to the eligible reporting period but not yet paid at the date of submission of the financial statement as well as those costs incurred after the end of the eligibility period should be detailed in the audit report.

- Exchange rates

The auditor verifies that expenses incurred in a currency other than Euro have been converted in accordance with the provisions of the financial guidelines.

- Compliance with sub-contracting and procurement rules

Where applicable, the auditor examines which procurement rules (as provided for the grant contract) apply for any given expenditure. The auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents for the procurement and purchase process, e.g. tenders/offers. Where the auditor finds instances of non-compliance with procurement rules, the nature of the case and the details of the costs should be included in the audit report.

If necessary, reasonable and adequately presented, institutions that are not partner institutions according to the grant contract can be conceptualised as subcontractors. In this case their expenses have to be included in the budget category 'other costs' of the main institutional partner in the respective country. Overhead costs are not applicable.

3.3.3. Overhead costs

The total expenses for overhead costs have to correspond to the overhead costs allocated in the budget sheet. In any case they may not exceed 10% of the total direct project costs. No supporting documentation is required. The auditor verifies that up to 10% overhead costs have been retained by the client. The actual overhead costs are calculated within each reporting period and are based on the approved expenses by OeAD. No supporting documentation is required.

3.3.4. Inventory of goods

The client shall keep and continuously update a list of all those goods procured with the grant funds or provided by the client from his own stock that are explicitly or based on their nature intended for use by the client or project partners and whose net procurement value individually exceeds 400.00 euros or another, lower, inventory amount provided for by local statutory regulations. The inventory of goods has to be part of the audit report.

3.3.5. Contributions in kind

Contributions in kind are not subject to verification and do not have to be mentioned in the financial statement.

3.4. Procedures to verify revenues

The auditor examines whether revenues which should be attributed to the project (including revenue generated by the project e.g. conference fees) have been allocated to the project and disclosed in the financial statement. For this purpose, the auditor should consult the client and examine documentation obtained from the client.