*[INSERT LETTERHEAD OF AUDITOR HERE]*

***Annex 1*** ***– Financial and Compliance Audit Report Template***

**[DRAFT OR FINAL] REPORT**

**[Date]**

**A FINANCIAL AND COMPLIANCE AUDIT OF THE ACTIVE CITIZENS FUND PROGRAMME**

|  |
| --- |
| Name of the Fund Operator (FO):Country:Project subject to audit: [Please provide Grace reference Number]Name of the Project Promoter:Period subject to audit:Dates of fieldwork: |

*[The template should be adapted if only one Audit Report is required. In that case, it should list separately all the projects including predefined project(s) implemented directly by the FO and the expenditures incurred directly by the FO under the programme budget headings: Fund for Bilateral Relations and Fund for Regional Civil Society Initiatives. Findings and ineligible amounts should be reported per each individual project]*

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| --- |
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# Independent Assurance Report

We have audited the expenditure and revenue as stated in the Financial Report for the Project ‘XXX” (the ‘Project) for the period from <date> to <date>, prepared by <name of Project Promoter> (the Project Promoter) pursuant to the requirements set out in the Programme Implementation Agreement signed between the Financial Mechanism Office (FMO) and the Fund Operator and the Project Contract signed between the Fund Operator and the Project Promoter.

Our findings are set out in the relevant sections of our report, which is made solely to the Fund Operator and the FMO.

**Respective responsibilities of the Project Promoter’s and/or the Fund Operator's** *[Choose the relevant or both in case of only one audit report]* **management**

The Project Promoter’s and/or the Fund Operator’s management is responsible for the preparation of the Financial Report in accordance with the applicable Contractual Conditions, and for such internal controls as management determines necessary for the preparation of a Financial Report that is free from material misstatement, whether due to error or fraud.

Responsibility of the Auditors

Our responsibility is to express an opinion on the Financial Report based on our audit. We conducted our audit in accordance with International Standards on Auditing (issued by the International Federation of Accountants) insofar as these standards can be applied in the context of this financial and contractual compliance audit. These standards require us to observe applicable ethical standards in the conduct of our work and perform the audit to obtain reasonable assurance about whether the Financial Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the abovementioned Financial Report. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, and evaluating the Project Promoter’s and/or the Fund Operator’s compliance with the applicable Contractual Conditions.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*[In cases where uncorrected weaknesses (see Section 6 of the ToR) are material and pervasive it may be necessary to give a qualified or adverse opinion. The wordings of the independent assurance report would therefore need to be altered to suit the circumstances.]*

**Basis for [Qualified] / [Adverse] Opinion** *[if financial findings reach the materiality threshold]*

We were unable to obtain sufficient, appropriate audit evidence to verify [*xxx or describe any limitations in scope]*. The effect of this is that we are unable to *[describe impact on our audit]*. We consider this limitation to be material but not pervasive *[use* “and pervasive” *if issuing an Adverse opinion]* in the context of our audit.

**Unqualified [Qualified] / [Adverse] Opinion**

In our opinion, [*if Qualified, add* “except for the effects of the matters referred to in the preceding ‘Basis for Qualified opinion’ paragraph”]; [*if Adverse, replace with* “Because of the significance of the effects of the matters referred to in the preceding ‘Basis for Adverse opinion’ paragraph”]:

* The Financial Report presents [*if Adverse, use* “does not present”] fairly, in all material respects, the actual expenditure incurred and revenue received for the Project for the period from <date> to <date> in conformity with the applicable Contractual Conditions; and
* The Programme funds provided by the FMO have, in all material respects, been used in conformity with the applicable Contractual Conditions.

*[Text of the opinion to be adapted if only one Audit Report is required. In that case, it should list all the projects including predefined project(s) implemented directly by the FO and the expenditures incurred directly by the FO under the programme budget headings: Fund for Bilateral Relations and Fund for Regional Civil Society Initiatives.]*

**Emphasis of Matter**

*[To be used if there are still uncorrected weaknesses but the opinion issued is still Unqualified]*

Without qualifying our opinion we draw your attention to the financial findings as set out in Section 1 of our report detailing some weaknesses in the Management and Control Systems. These findings represent <insert percentage>% of the total expenditure amount reported for the Project and are therefore not considered material *[i.e. where the total amount is less than 2% ]* in the context of our audit. Nevertheless, we report them to you in accordance with our Terms of Reference as they may be taken into account in determining any balance of funding payable or recoverable by the FO/FMO.

**Distribution and Use**

This report is provided for the information and use only of the Fund Operator and the FMO.

|  |  |  |
| --- | --- | --- |
| [Insert auditor’s signature[[1]](#footnote-1)][Name of auditor signing][Title of auditor signing][Name of audit firm] [Date – to be inserted when final report is signed] |  | [Auditor’s full address]  |

# Summary of Findings

Our financial findings are summarised in Section 3. The following tables show the relation of the financial findings with the total expenditure reported for the Project and with the total amount of EEA Grants funding for the Project.

|  |  |  |
| --- | --- | --- |
| **Description** | **Amount €** | **% of total Project expenditure reported** |
| Total expenditure reported for the Project and subject to audit  | <amount> |  |
| Financial findings (ineligible expenditure established) | <amount> | <%> |

|  |  |
| --- | --- |
| **Description** | **€** |
| Total expenditure reported for the Project and subject to audit  | <amount> |
| Less: financial findings (ineligible expenditure established) | <amount> |
| Less: Impact of indirect costs <percentage>% x ineligible personnel costs established] | <amount> |
| **Total eligible expenditure for the Project** | <amount> |
| EEA Grants contribution to eligible expenditure for the Project is <percentage>%] | <amount> |
| **Total EEA Grants funding for the Project** | **<amount>** |
| Less: instalment(s) paid by the FO | <amount> |
| **Balance of funding payable or recoverable by the FO/FMO** | **<amount>** |

## Financial Findings

The financial findings are summarised below, and are set out in more detail in section 3.1:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Finding No.** | **Error Classification** | **Description** | **Amount (€) < Draft report >** | **Amount (€) < Final report >** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

*Errors are classified as follows:*

*1 – Not related to the project/activity*

*2 – Incurred outside eligibility period*

*3 – No / insufficient supporting documentation provided*

*4 – Not in compliance with procurement policies / regulations*

5 *– Expenditure included recoverable VAT*

*6 – Other*

## Management Control Findings

Our management control findings are summarised below, and are set out in more detail in section 3.2.

|  |  |  |
| --- | --- | --- |
| **Finding No.** | **Description** | **Priority level** |
|  |  |  |
|  |  |  |
|  |  |  |

*Priority refers to the priority of the recommendation based on the following scale:*

*Priority 1: Urgent remedial action is required*

*Priority 2: Prompt specific action is required*

*Priority 3: Specific remedial action is desirable*

# The Engagement Context

## Background of the engagement

The engagement was requested in accordance with Article 9.5 of the Programme Implementation Agreement signed between the FMO and the Fund Operator (FO), which requires the FO to commission an independent, external financial and compliance audit of:

* at least 10% of expenditures incurred by the PPs, covering at least 15% of the projects; and
* the costs incurred directly by the FO – including costs incurred within the framework of any project implemented directly.

## Entity subject to audit

[*Provide a brief description of the PP/FO – i.e. type of organisation (NGO, non-profit, private, local / international, etc.), overview of the organisational structure, background, objectives and main activities, etc.*]

## Project/Programme subject to audit

[*Provide a brief description of the Project/Programme – i.e. main and specific objectives and activities, implementation structure, summary of main outputs / results, financial information (budget/actual costs/absorption rate, etc.]*

## Engagement Objectives

The overall objectives of the audit were to enable us to express an opinion on whether the Financial Report presents fairly, in all material respects, the actual expenditure incurred by the Project Promoter/Fund Operator and the revenue received from the FMO in conformity with the applicable Contractual Conditions and whether the Programme funds provided by the FMO as in all material respects, been used in conformity with the applicable Contractual Conditions.

## Engagement Scope and Process

The scope of work of this financial audit covered the expenditure and revenue stated in the Financial Report of the Project for the period from <date> to <date>.

The following projects were selected as part of our sample testing on project expenditure. Details of the audit coverage of the expenditure are set out in Annex <xxx>.

| **Project** **No.** | **Project Name** | **Project** **Promoter** | **Contract** **Value (€)** | **Actual Expenditure (€)** | **Status****(at date** **of fieldwork)** | **Project Implementation Period** |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

*[Add brief description of sampling* *methodology applied (i.e. which PPs were selected, why/how they were selected, and the proportion of expenditure tested) – refer to Section 6 of the ToR]*

**Fieldwork**

An opening meeting was held on <date> in the offices of the <name of the FO> in <location> between representatives of <Audit Firm> and the FO, where we met with key staff, ascertained their duties, and outlined our objectives and planned approach in respect of the engagement.

The following persons were present:

|  |  |  |
| --- | --- | --- |
| **Persons present** | **Representing** | **Role** |
|  |  |  |
|  |  |  |
|  |  |  |

*[Add description of AUDIT PROCEDURES PERFORMED on site – see Section 6 and Annex 2 of the ToR and suggested sub-headings below:]*

**Key Audit Risks and Responses**

**Materiality and sampling**

**Analytical procedures**

**Test of controls**

**Substantive procedures**

At the end of the fieldwork we prepared an Aide Memoire which listed our preliminary findings prior to the issuance of a draft report. These were discussed with the PP/FO at the closing meeting held on <date> in the offices of the <name of the PP/FO> in <location> when we obtained their comments on the findings.

The following persons were present:

|  |  |  |
| --- | --- | --- |
| **Persons present** | **Representing** | **Role** |
|  |  |  |
|  |  |  |

# Findings and Recommendations

## Financial Findings

|  |  |
| --- | --- |
| **Finding n°:** [number] | **Title:** [Insert title of finding – *to correspond with the title in Section 1 - highlighting the issue]* |
| **Project N:** |  |
| **Entity/ies:** |  |
| **Legal basis:** [*Insert reference from the Programme Implementation Agreement (and Manual where this provides useful information) which provides the rule not followed*] |
| **Description of the finding:** [describe in detail the finding covering facts, eligibility criteria, cause and impact, clear references to the transaction number, dates, etc.] |
| **Recommendation:** |
| **Ineligible Amount €:** [amount] |
| **Related management control finding n°:** [in cases where there is a systemic weakness] |
| **Comments from the PP/FO:** [state whether the Entity agrees or disagrees with the finding and describe Entity comments.] |
| **Further comments of the Auditor:** [complete only if the Entity does not agree with the finding of the Auditor but the Auditor still believes that the finding is valid. In that case the Auditor should say here why the comments of the Entity are not solid and justify why the finding is retained.] |

*[Where there is more than one finding, reproduce the above table, using a separate page for each finding]*

## Management Control Findings

|  |  |
| --- | --- |
| **Finding n°:** [number] | **Title:** [Insert title of finding – *to correspond with the title in Section 1 - highlighting the issue]* |
| **Legal basis:***[Insert the reference and text from the Programme Implementation Agreement (and Manual where this provides useful information) which highlights the weakness in the PP/FO management and control systems – also refer to further guidance under Section 6 and Annex 2 of the ToR* |
| **Description of the finding:** *[Describe the weakness identified and its cause and effect, explaining how the above legal basis has not been complied with]* |
| **Recommendation:** [*State what, in practice, the PP/FO needs to do to remedy the weakness]* |
| **Priority level:** *[State if 1, 2, or 3 – see section 1.2]* |
| **Comments from the PP/FO:** [*Obtain the comments of the PP/FO on the weakness identified*] |
| **Further comments from the Auditor:***[If required, for example, if the PP/FO does not accept the recommendation, provide further comments to justify the finding]* |

*[Where there is more than one finding, reproduce the above table, using a separate page for each finding]*

# *Annex 1: Financial Report of Project <title of the Project>*

# *for the period <date> to <date>/*

# *Annex 2: Details of expenditure considered ineligible*

Refer to attached file in MS Excel.

# *Annex 3: Persons contacted or involved in the engagement*

|  |
| --- |
| **The Auditor – <Name>** |
| [Name] | [Title / Role] |
| [Name] | [Title / Role] |

|  |
| --- |
| **The Entity subject to audit – [name of the PP/FO]** |
| [Name] | [Title / Role] |
| [Name] | [Title / Role] |
| [Name] | [Title / Role] |
| [Name] | [Title / Role] |

1. Person legally responsible for the audit report on behalf of the audit firm. The signature should be accompanied by the auditor’s license number. [↑](#footnote-ref-1)