REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF MAKERERE UNIVERSITY:

ADAPTATION OF SMALL SCALE BIOGAS DIGESTERS FOR USE IN RURAL

HOUSEHOLDS IN SUB SAHARAN AFRICA PROJECT

FOR THE 16-MONTH PERIOD ENDED 31ST MARCH 2014

OFFICE OF THE AUDITOR GENERAL
UGANDA
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MAKERERE UNIVERSITY: ADAPTATION OF SMALL SCALE BIOGAS DIGESTERS
FOR USE IN RURAL HOUSEHOLDS IN SUB SAHARAN AFRICA PROJECT
(CRS IDENTIFICATION NUMBER: FED/2012/305-966)
FOR THE 16 MONTH PERIOD ENDED 31st MARCH, 2014

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the financial statements of Makerere University: Adaptation of Small Scale Biogas Digesters for use in Rural Households in Sub-Saharan Africa Project for the 16 months period ending 31st March 2014. These financial statements comprise of the Fund Accountability Statement together with other accompanying statements, notes and accounting policies.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the project financial statements in accordance with the Grant Contract Agreement reporting guidelines, and the full accrual basis of accounting as described under note 5.1.1 to the financial statements. This responsibility includes; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the project financial statements that are free from material misstatements whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

My responsibility as required by Article 163 of the Constitution of the Republic of Uganda 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008 is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of
accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Part “A” of this report sets out my opinion on the financial statements and the Internal Control Structure. Part “B” which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management. Part “C” comprises of my report of factual findings for an expenditure verification of an European Commission (EC) financed grant contract for external action, as required by the European Commission (EC).

PART "A"

Basis for Qualified Opinion
- Funds not accounted for
A sum of Euros 137,326.62 advanced to 9 partners to carry out project activities lacked relevant supporting documents contrary to the requirements of the Grant Contract. Unsupported expenditure may result into misappropriation of the project funds thereby hindering implementation of the project.

Qualified Opinion
In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Fund Accountability Statement for Makerere University: *Adaptation of Small Scale Biogas Digesters For Use In Rural Households In Sub Saharan Africa Project* and the notes thereon present fairly in all material respects, the project revenue and expenditure for the 16-month period ended 31st March 2014 and the fund balance on that date, in accordance with the basis of accounting described under Note 5.1.1.

John F.S. Muwanga

AUDITOR GENERAL
KAMPALA
25th February, 2015
PART “B”
DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MAKERERE UNIVERSITY: ADAPTATION OF SMALL SCALE BIOGAS DIGESTERS FOR
USE IN RURAL HOUSEHOLDS IN SUB SAHARAN AFRICA PROJECT FOR THE 16
MONTHS PERIOD ENDED 31ST MARCH 2014

This section outlines in detail the audit scope, audit findings, my recommendations and
management responses in respect thereof.

1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended)
requires me to audit and report on the public accounts of Uganda and all public offices
including the courts, the central and local government administrations, universities, and
public institutions of the like nature and any public corporation or other bodies or
organizations established by an Act of Parliament. Accordingly, I carried out the audit of
the project to enable me report to Parliament.

2.0 PROJECT BACKGROUND

The Grant agreement between the African Union Commission (AUC) (contracting
Authority with Makerere University (the Beneficiary) was signed on 17th December 2012.
Under this agreement, the Contracting Authority awarded a grant amounting to Euros. 748,865
78.21% of the total eligible
to the beneficiary for the implementation of the Action entitled:
"Adaptation of small scale biogas digesters for use in rural households in Sub-
Saharan Africa project. This amount was equivalent to 78.21% of the total eligible
cost of the Action which was estimated at Euros. 957,527.

The actual cost of the Action financed by the Contracting Authority amounted to Euros.
258,161.37. The total duration of the Action was agreed as 36 months. The duration
therefore stretches from 17th December 2012 to 16th December 2015. The project is
being implemented by the department of Agribusiness and Natural Resource Economics
under College of Agricultural and Environmental Sciences.
The partners of this project include:
1. University of Aberdeen(UA)
2. Phytobiotechnology Research Foundation(PRF)
3. Orskov Foundation (ORS)
4. Makerere University (MAK)
5. James Hutton Institute(JHI)
6. Institute for sustainable development(ISD)
7. Green Heat(U) Ltd(GHU)
8. Climate Futures
9. Catholic University Cameroon (CUC)
10. Addis Ababa University (AA)

3.0 PROJECT OBJECTIVES
The overall objective of the Project is to adapt existing technology, provide new tools and develop local approaches to support uptake and use of biogas digesters in rural Sub Saharan Africa. The specific objectives include;
1. Identify barriers to uptake and assess how biogas digester technology can be made more accessible to the rural poor in SSA.
2. Quantify socio-economic and environmental costs and benefits of the different designs of biogas digesters.
3. Adapt existing technology to be suitable for local conditions and different socio economic groups of the rural poor in SSA.
4. Develop a toolkit to support promotion, selection, installation and long term maintenance of biogas digesters.

4.0 AUDIT PROCEDURES
The audit was carried out in accordance with International Standards on Auditing and accordingly included a review of the accounting records and agreed procedures as was considered necessary. The audit procedures were aimed at ascertaining:-

a. Whether the Project managers are managing the grant in accordance with the Financing Agreement and the Government of Uganda financial regulations.
b. Whether the expenditure of the grant is fully supported with appropriate documentation.
c. Whether procurements under the grant were done using competitive methods and establish reasons for any departures.
d. Whether staff claims and payments are in line with their letters of appointment and if allowances of whatever nature are claimed against documentation.

e. Whether the financial statements have been prepared in accordance with generally accepted accounting principles and give a true and fair view of the resources and expenditure for the year and of the financial position at the end of the year in accordance with the accounting policies adopted.

f. Whether Grant assets are used in the interest of the grant.

g. Whether taxes such as Pay as You Earn (PAYE) and Social Security contributions payable by the Project staff (Non-exempted), were duly deducted and remitted to relevant authorities.

4.0 PROCEDURES PERFORMED

a. Revenue
   Obtained all schedules of funds provided by the donor and reconciled the amounts to the project bank account.

b. Expenditure
   Vouched transactions including Statements of Expenditure used for submission of applications for funds during the period to establish whether documentation in support of expenditure agreed with the amount and description on the vouchers, and was properly controlled and accounted for.

c. Internal Control System
   Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period.

d. Procurement
   Reviewed the procurement of goods and services under the Project during the period under review and reconciled with the approved procurement plan.

e. Fixed Assets Management
   Reviewed the use and management of the Project assets during the period under review.
f. **Periodic Reports about the Project Activities**
Reviewed the Agreement provisions and reports and reconciled it with the Project activities during the period under review.

g. **Project Financial Statements**
Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation.

### 6.0 COMPLIANCE WITH FINANCING AGREEMENT PROVISIONS AND GOVERNMENT OF UGANDA FINANCIAL REGULATIONS

It was noted that management had in all material respects complied with the financing agreement provisions and Government of Uganda financial regulations except for the following matters:

#### 6.1 Funds not accounted for
A sum of Euros 137,326.624 advanced to 9 partners to carry out project activities lacked relevant supporting documents contrary to Articles 2.1, 16.2 & 16.3 (Annex II) of the Grant Contract. Unsupported expenditure may result into misuse of the project funds thereby hindering implementation of the project.

Management explained that the funds disbursed to all partners were based on the submitted funding requests and bank information that served as supporting documents. Management undertook to ensure that other supporting documents are obtained and kept by the Lead Applicant.

I have advised management to ensure that in future, all partners submit periodic accountability returns in respect of the funds disbursed to them.

#### 6.2 Irregular Expenditure
Comparison of the approved budget and the actual expenditure for the financial year under review revealed that the expenditure exceeded the budget on a number of items
by a total of Euros 10,758.54 without the relevant authority. Activities whose funds were encroached upon may not be fully implemented. Management acknowledged the anomaly which they attributed to posting of figures to wrong budget lines. However, management undertook to ensure that partner institutions correctly post report figures in the appropriate budget lines.

I await management’s action in this regard.

6.3 **Unauthenticated Bank Documents from Partners**

During the first year of payment, it was noted that most of the bank statements submitted by partners apart from Cameroon were not authenticated by their respective bankers thereby rendering them doubtful.

Management in response acknowledged the anomaly and undertook to communicate the same to all partner institutions.

7.0 **GENERAL STANDARDS OF ACCOUNTING AND INTERNAL CONTROL**

It was noted that management’s control structure environment, accounting system and policies and control procedures were generally adequate to ensure prudent use of, and accountability for all project expenditure except in the following instances:

7.1 **Unabsorbed Funds**

During the year under review, a sum of Euros 61,311.06 was disbursed to several Project Partners to undertake various activities. However, the funds remained unutilized by end of the period under review. There is a risk of delayed completion of project activities and/or diversion of funds which may result in funding sanctions.

Management attributed the state of affairs to low burn rates for some partners due to a delay in project start time yet some partners’ activities depended on others’ output. I have advised management to ensure that all funds are absorbed in accordance with the workplan.

8.0 **STATUS OF PROJECT IMPLEMENTATION**

During the year under review a total of Euros 258,161.37 was disbursed to various African Union Commission Project partners implementing the project. Field inspections
were carried out in a selected number of beneficiary homes in Uganda in the Districts of; Luweero, Kiboga, Mpigi and Buikwe among others to review the status of project implementation and the following anomaly was noted:

8.1 **Project Monitoring Costs**

A review of the project documents revealed that no provision was made for the principal investigator or an independent person to undertake monitoring and inspections of project implementation. Without proper monitoring and inspection, there is a risk that any deviation may not be detected and corrected in a timely manner.

Management explained that this matter was communicated to African Union Commission to permit budget re-allocation to include monitoring costs. I await the outcome of management’s action in this regard.
PART C

This section comprises of my report of factual findings for an expenditure verification of an AU financed grant contract for external action, as required by the European Commission.

Professor John Mugisha
College of Agricultural and Environmental Sciences
Department of Agriculture and Natural Science
Makerere University
P.O. Box 7062
Kampala, Uganda.

25th February 2015

Dear Dr. John Mugisha

REPORT OF FACTUAL FINDINGS FOR AN EXPENDITURE VERIFICATION OF AN AU FINANCED RESEARCH GRANT CONTRACT FOR EXTERNAL ACTION

In accordance with my engagement letter dated 24th March, 2012 with Makerere University ("the Beneficiary") and the terms of reference for an Expenditure Verification of an African Union financed Research Grant Contract for External Actions, I provide my report of factual findings ("the Report"), with respect to the accompanying Financial Report you provided for the 16-month period covering 17th December, 2012 to 31st March, 2014. You requested certain procedures to be carried out in connection with your Financial report and European Union Finance Grant Contract Concerning Adaption of small Scale Biogas digesters for use in Rural households in Sub-Saharan Africa: Grant number AURG/2/058, the Grant Contract.

Objective

My engagement was an expenditure verification which is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Grant Contract between you and the African Union Commission the “Contracting Authority”. The objective of this expenditure verification is for us to carry out certain procedures to
which we have agreed and to submit to you a report of factual findings with regard to the procedures performed.

**Standards and Ethics**

My engagement was undertaken in accordance with:

International Standard on Related Services ('ISRS') 4400 *Engagements to perform 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 Contracting Authority requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*;

**Procedures performed**

As requested, I have only performed the procedures set out in the terms of reference for this engagement and I have reported my factual findings on those procedures in CHAPTER 2 of this Report.

The scope of these agreed upon procedures has been determined solely by the Contracting Authority and the procedures are performed solely to assist the Contracting Authority in evaluating whether the expenditure claimed by the Beneficiary in the accompanying Financial Report has occurred ('reality'), is accurate ('exact') and eligible (necessary).

Because the procedures performed by me did not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, I do not express any assurance on the accompanying Financial Report.

Had I performed additional procedures or had I performed an audit or review of the financial statements of the Beneficiary in accordance with International Standards on Auditing, other matters might have come to my attention that would have been reported to you.
Sources of Information
The Report sets out information provided to me by you in response to specific questions or as obtained and extracted from your accounts and record.

Factual Findings
The total expenditure which is the subject of this expenditure verification amounts to Euros. 149,531.72.

The Expenditure Coverage Ratio is 75%. This ratio represents the total amount of expenditure verified by me expressed as a percentage of the total expenditure which has been the subject of this expenditure verification. The latter amount is equal to the total amount of expenditure reported by the Beneficiary in the Financial Report (Annex III) and claimed by the Beneficiary for deduction from the total sum of pre-financing under the Grant Contract as per the beneficiary’s Request for Payment.

Based on the agreed-upon procedures that I performed, I found that all the expenditure was eligible. The details of my factual findings are presented in CHAPTER 2 of this Report.

Use of this Report
This report is solely for the purpose set forth in the above objective.
This report is prepared solely for the confidential use of the Beneficiary and the Contracting Authority and solely for the purpose of submission to the Contracting Authority in connection with the requirements as set out in Article 15 of the General Conditions of the Grant Contract. This report may not be relied upon by the Beneficiary or by the Contracting Authority for any other purpose, nor may it be distributed to any other parties. The Contracting Authority may only disclose this Report to others who have regulatory rights of access to it in particular the European Commission, the European Anti-Fraud Office and the European Court of Auditors.

This Report relates only to the financial report specified above and does not extend to any financial statements of the Beneficiary.
I look forward to providing any further information or assistance which may be required.

Yours sincerely,

John F.S. Muwanga

AUDITOR GENERAL
KAMPALA

25th February 2015
REPORT DETAILS

CHAPTER 1

1.0 **Information about the Grant Contract and the Action**

   Title of Action: Adaptation of small scale biogas digesters for use in rural households in sub-Saharan-Africa project.

   Grant Contract No. AURG/058/2012

   Beneficiary: Makerere University

1.2 **Cost of the Action**

   - Total cost of the Action eligible for financing by the Contracting Authority was estimated at Euros. 957,527.
   - The Contracting Authority undertook to finance a maximum of Euros. 571,371.65 equivalent to 78.21% of the total eligible cost of the Action.
   - The actual cost of the Action financed by the Contracting Authority was Euros. 258,161.37.

1.3 **Total Duration of the Action**

   36 months; the duration therefore stretches from 17th December 2012 to 16th December 2015.

1.4 **Overall objective**

   To adapt existing technology, providing new tools and develop local approaches to support uptake and use of biogas digesters in rural Sub-Sahara Africa (SSA)

1.5 **Specific Objective**

   To adapt the existing technology, providing new tools and develop local approaches to support uptake and use of biogas digesters in rural Sub-Sahara Africa (SSA.)
# Information about the Grant Contract

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<td>Makerere University, P.O. Box, 7062, Kampala</td>
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<td>Legal basis for the Contract</td>
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<td>End date of the Action</td>
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<td>Total cost of the Action</td>
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<td>Grant maximum amount</td>
<td>Euros 748,865</td>
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<td>Total amount received to date by the Beneficiary from Contracting Authority</td>
<td>Euros 258,161.37</td>
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<td>Contracting Authority</td>
<td>African Union Commission Programme Management Unit-African Union Research Grant Department of Human Resource, Science and Technology Roosevelt Street Po.Box 3243 Addis Ababa, Ethiopia Tel.+251115517700 Fax.+251115517844</td>
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<td><strong>European Commission</strong></td>
<td>Mr. Gary QUINCE</td>
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<td>Head of European Union Delegation to the African Union</td>
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<td>Po.Box 25223/1000</td>
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<tr>
<td><strong>Auditor</strong></td>
<td>Office of the Auditor General, P.O. Box 7083, Kampala, Uganda.</td>
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CHAPTER 2

2.0 PROCEDURES PERFORMED AND FACTUAL FINDINGS

I have performed the procedures as agreed upon in the terms of reference for an expenditure verification of the Grant Contract concerning Adaptation of small scale biogas digesters for use in rural households in Sub-Saharan Africa project Contract No. AURG/2058/2012. The factual findings of these procedures are set out under the headings below:

2.1 OBTAINING A SUFFICIENT UNDERSTANDING OF THE ACTION AND OF THE TERMS AND CONDITIONS OF THE GRANT CONTRACT

I reviewed the Grant Contract and its annexes and other relevant information, and by inquiry of the Beneficiary with particular attention to Annex I of the Grant Contract, which contains the Description of the Action, Annex II (General Conditions) and Annex IV, which provides rules for procurement (including nationality and origin rules) by grant beneficiaries in the context of EC external actions.

It was noted that management had in all material respects complied with the financing agreement provisions and Government of Uganda financial regulations except for the following matters:

2.2 PROCEDURES TO VERIFY THE ELIGIBILITY OF EXPENDITURE CLAIMED BY THE BENEFICIARY IN THE FINANCIAL REPORT FOR THE ACTION

2.2.1 GENERAL PROCEDURES

A review of the Financial Report confirmed that the report was prepared in compliance with the conditions of the Grant Contract notably with Article 2 of the General Conditions (including format and language).

A review of the beneficiary’s accounting system confirmed that the Beneficiary being a public university applied the Government of Uganda accounting system for all its financial transactions as per the Public Finance and Accountability Act and also the Universities and Other Tertiary Institutions Act (The Act creating the Beneficiary).

An assessment made on this basis revealed that an efficient and effective expenditure verification of the Financial Report was feasible.
The correct exchange rates have been applied for currency conversions of USD to Euro and local currency of different partner agencies to Euro and in accordance with the conditions of the Grant Contract notably Article 15.9 of the General Conditions.

2.2.2 **CONFORMITY OF EXPENDITURE WITH THE BUDGET AND ANALYTICAL REVIEW**

An analytical review of the expenditure headings in the Financial Report was carried out and it was confirmed that the budget in the Financial Report corresponded with the Budget of the Grant Contract (authenticity and authorisation of the initial Budget) and that the expenditure incurred was foreseen in the budget of the Grant Contract.

The total amount claimed for payment by the Beneficiary was within the maximum grant laid down in Article 3.2 of the Special Conditions of the Grant Contract.

2.3 **VERIFICATION OF EXPENDITURE**

(a) **Eligibility of Direct Costs**

A verification of the eligibility of direct costs was carried out with reference to the terms and conditions of the Grant Contract notably Article 14 of the General Conditions. It was noted that these costs were necessary for carrying out the action and were provided for in the Grant Contract Budget.

(i) **Irregular Expenditure**

Comparison of the approved budget and the actual expenditure for the financial year under review revealed that the expenditure exceeded the budget on a number of items by a total of 10,758.54 Euros without the relevant authority. Activities whose funds were encroached upon may not be fully implemented.

Management acknowledged the anomaly which they attributed to posting figures to wrong budget lines. However, management undertook to ensure that partner institutions correctly post report figures in the appropriate budget lines. I await management’s action in this regard.
(b) **Accuracy and recording**
A review of accountability and supporting documents for the expenditure of the Action indicated that expenditure transactions were accurately and properly recorded in the Beneficiary’s accounting system and the Financial Report.

(c) **Classification**
It was noted that expenditure items for the action were classified under the correct headings and sub headings of the Financial Report as required by Annex VI of the Grant Contract.

(d) **Reality (Occurrence/existence)**
A verification of accountability documents coupled with physical observations of assets and inquiries from the Beneficiary revealed that the expenditure actually occurred (reality and quality of the expenditure) as per the budget of the Action and the acquired assets were confirmed to exist.

(i) **Funds not accounted for**
A sum of Euros 137,326.624 advanced to 9 partners to carry out project activities lacked relevant supporting documents contrary to Article 2.1, 16.2 & 16.3 (Annex II) of the Grant Contract. Unsupported expenditure may result into misuse of the project funds thereby hindering implementation of the project.

Management explained that the funds disbursed to all partners were based on the submitted funding requests and bank information that served as supporting documents. Management undertook to ensure that other supporting documents are obtained and kept by the Lead Applicant. I have advised management to ensure that in future, all partners submit periodic accountability returns in respect of the funds disbursed to them.

(ii) **Unauthenticated Bank Documents from Partners**
During the first year of payment, it was noted that most of the bank statements submitted by partners apart from Cameroon were not authenticated by their respective bankers thereby rendering them doubtful.
Management in response acknowledged the anomaly and undertook to communicate the same to all partner institutions.

I have advised management to always ensure that all bank documents provided by the partners are certified.

(e) **Compliance with procurement, nationality and origin rules**

The Beneficiary’s procurements are governed by the Public Procurement and Disposal of Public Assets Act. It was noted that the expenditure on procurements was eligible and was in compliance with procurement rules.

(f) **Administrative (indirect) cost**

A review of the financial report confirmed that the administrative (indirect) costs (heading 10 of the Financial Report) did not exceed a maximum of 7% of the total direct eligible costs of the action as required by Article 14.3 of the General Conditions.

(g) **Contingencies**

The financial report was reviewed to confirm that contingencies (heading 8 of the Financial Report) did not exceed 5% of the total eligible costs (direct and indirect) of the Action as per Article 14.4 of the General Conditions.

2.4 **VERIFICATION COVERAGE OF EXPENDITURE**

2.4.1 **Expenditure Coverage Ratio (‘ECR’)**

The Expenditure Coverage Ratio (‘ECR’) is 75%. This ratio represents the total amount of expenditure verified by me expressed as a percentage of the total amount of expenditure reported by the Beneficiary in the Financial Report and claimed by the Beneficiary for deduction from the total sum of pre-financing under the Grant Contract. This amount is reported in Annex V of the Grant Contract.

2.4.2 **Sufficient spread of the ECR over expenditure categories**

The principles and criteria set out in Section 2.5 of the Terms of Reference were applied during planning and performing the procedures for expenditure verification. This allowed me to rationalise my verification work and to confirm that there was sufficient spread of
the ECR over expenditure categories to enable me to obtain and evaluate verification evidence to form a conclusion on the total of the population from which the sample was drawn.
FINANCIAL STATEMENTS