

<b>Closing Date:</b>	<b>Friday 9<sup>th</sup> December</b>	<b>at 10:00am</b>
<b>Quotation Reference:</b>	<b>MRA/WAT/72/2009/1</b>	



## Call for Quotations

**Issued on 2<sup>nd</sup> December 2011**

# PROVISION OF AUDIT SERVICES, EX ARTICLE 16 EC REGULATION 1080/2006, IN CONNECTION WITH THE “SWMED” PROJECT CO-FINANCED THROUGH ENPI CBC MED



ENPI CBC MED programme



This project is part-financed by the European Union's  
Neighbourhood Partnership Instrument



Co-financing rate: 90% EU Funds; 10% National Funds  
Cooperation that Counts

## CALL FOR QUOTATIONS

# PROVISION OF AUDIT SERVICES IN CONNECTION WITH THE “SWMED” PROJECT CO-FINANCED THROUGH ENPI CBC MED

### 1. Background

The Malta Resources Authority is a partner in an EU funded project entitled “SWMED” – Sustainable Domestic Water Use in Mediterranean Regions; co-financed by the ENPI Cross-Border Cooperation Programme.

The SWMED project aims to promote in each participating country, policies aimed at satisfying water and sanitation needs of the population while reducing water abstraction and improving quality of water bodies receiving wastewater. This project is being led by the Lazio Region. Other partners include the Ministry for Gozo; IRIDRA, Italy; SVI.MED – Mediterranean Centre for the Sustainable Development, Italy; Palestinian Hydrology Group; Centre de Recherches et Technologies des Eaux, Tunisia; and the Palestinian Water Authority.

The SWMED project which covers the period between September 2011 and August 2014, was allocated a total budget of €1.78 million, of which 90% is funded from the Programme, while the remaining 10% is composed of national contributions by all partners.

The total budget for the Malta Resources Authority is € 137,948.08 of which € 124,153.27 is co-financed by the Programme (90%).

### 2. Scope

This call for quotations invites reputable audit firms or individuals, from hereon referred to as the interested bidders, to deliver audit services for the expenditure incurred by the Malta Resources Authority whilst implementing the SWMED project.

The bidder **must respect** one of the following conditions:

- The Auditor and/or the firm is a member of a national accounting or auditing body or institution which in turn is member of the International Federation of Accountants (IFAC).
- The Auditor and/or firm is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in the Terms of Reference in **Annex 2** (which is **Annex VII, Special Conditions Grant Contract – Expenditure Verification**, of the Grant Agreement).

- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (this applies to auditors and audit firms based in an EU Member State).
- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in a Mediterranean Partner Country and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to auditors and audit firms based in a Mediterranean Partner Country).

The selected service provider will be required to provide a control certificate which attests that a controller has gone through the claim and has checked it according to the requirements of the programme.

Following the auditor's checks, the claim will then be submitted to the Territorial Cooperation Unit within the Office of the Prime Minister for the final verification.

### **3. Duration of Assignment and Time frames**

This assignment covers a total of three (3) audit exercises - one every year.

The selected service provider will be required to issue the relevant audit reports in respect of each claim for reimbursement to be made for this project.

The draft audit report is to be concluded within one (1) week from the submission of the claim for reimbursement. The final report should be presented in three (3) hard copies and one (1) soft copy within three (3) days of communication of revisions or acceptance.

### **4. Submission Requirements**

The bids must contain the following:

1. Brief profiles (or CV) of the personnel that will be engaged on this assignment including qualifications, professional experience and warrants held by each individual;
2. Proof of past audit assignments in connection with EU funded projects;
3. A financial proposal in Euro (inclusive of VAT and all other applicable taxes) indicating a price for the whole assignment.

Proposals are to be submitted in the format as shown in **Annex 1** and are to be presented at the:

**Tender Box,**  
**Malta Resources Authority**  
**Millenia 2<sup>nd</sup> Floor**  
**Aldo Moro Road**  
**Marsa MRS 9065**

**By no later than 10.00am of Friday 9<sup>th</sup> December 2011**

Proposals submitted in any other way or format will not be considered. Late submissions will not be considered.

## **5. Budget and Payment Terms**

The maximum budget for this assignment is **€4.200,00** (inclusive of VAT). Offers exceeding this amount shall not be considered.

Payment will be effected in full following the satisfactory delivery of each audit exercise.

## **6. Award Criteria**

This quote will be awarded to the cheapest technically compliant offer.

## **ANNEX 1**

### **ONLY QUOTATIONS SUBMITTED IN THE STIPULATED FORMAT WILL BE CONSIDERED**

**Quotation Ref: MRA/WAT/72/2009/1**

#### **Suppliers/Contractor's details**

Company's Name:	
Contact Person's Name and Surname:	
Company's Address:	
Telephone Number:	
Mobile Number:	
Fax Number:	
E-mail address:	

#### **Please tick at least one of the following as applicable:**

- The Auditor and/or the firm is a member of a national accounting or auditing body or institution which in turn is member of the International Federation of Accountants (IFAC).
- The Auditor and/or firm is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in the Terms of Reference in Annex 2.
- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (this applies to auditors and audit firms based in an EU Member State).
- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in a Mediterranean Partner Country and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to auditors and audit firms based in a Mediterranean Partner Country).

Description	Total Price Excl VAT	VAT	Total
	€	€	€
<b>Provision of Audit Services in connection with SWMED project</b>			

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## ANNEX 2

### **ANNEX VII Special Conditions Grant Contract – Expenditure Verification**

#### **TERMS OF REFERENCE FOR AN EXPENDITURE VERIFICATION OF A GRANT CONTRACT - EXTERNAL ACTIONS OF THE EUROPEAN COMMUNITY -**

The following are the terms of reference ('ToR') on which *<name of the Beneficiary>* 'the Beneficiary' agrees to engage *<name of the audit firm>* 'the Auditor' to perform an expenditure verification and to report in connection with a grant financed by the ENPI CBC Mediterranean Sea Basin Programme for the activities concerning *<title and number of grant contract>* (the 'Grant Contract'). Where in these ToR the 'Contracting Authority' is mentioned this refers to the Autonomous Region of Sardinia, as Joint Managing Authority (JMA) of the Programme, which has signed the Grant Contract with the Beneficiary and is providing the grant funding. The Contracting Authority is not a party to this agreement<sup>1</sup>.

#### **1.1 Responsibilities of the Parties to the Engagement**

'The **Beneficiary**' refers to the organisation that is receiving the grant funding and that has signed the Grant Contract with the JMA.

- The Beneficiary is responsible for providing a Financial Report for the Project financed by the Grant Contract which complies with the terms and conditions of the Grant Contract and for ensuring that this Financial Report can be reconciled to the Beneficiary's accounting and bookkeeping system and to the underlying accounts and records. The Beneficiary is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.
- The Beneficiary accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Beneficiary, and as the case may be his partners, providing full and free access to the Beneficiary's staff and its accounting and bookkeeping system and underlying accounts and records.
- 'The **Auditor**' is responsible for performing the agreed-upon procedures as specified in these ToR, and for submitting a report of factual findings to the Beneficiary. '**Auditor**' refers to the audit firm contracted for this engagement and in particular to the partner or other person in the audit firm who is responsible for the engagement and for the report that is issued on behalf of the firm, and who has the appropriate authority from a professional, legal or regulatory body.
- By agreeing these ToR the Auditor confirms that he/she meets at least one of the following conditions:
  - The Auditor and/or the firm is a member of a national accounting or auditing body or institution which in turn is member of the International Federation of Accountants (IFAC).
  - The Auditor and/or the firm is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.

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<sup>1</sup> When the partnership has a common auditor, the auditor will have to perform the same checks for each partner. In case the partners engage different auditors they will have to apply these Terms of Reference.

- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (this applies to auditors and audit firms based in an EU Member State)<sup>2</sup>.
- The Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in a third country and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to auditors and audit firms based in a third country).

## **1.2 Subject of the Engagement**

The subject of this engagement is the *<interim or final; delete what is not applicable>* Financial Report in connection with the Grant Contract for the period covering *<dd Month yyyy to dd Month yyyy>* and the project entitled *<title of the Project>*, the 'Project'. Annex 1 to these ToR contains information about the Grant Contract.

## **1.3 Reason for the Engagement**

The Beneficiary is required to submit to the JMA an expenditure verification report produced by an external auditor in support of the payment requested by the Beneficiary under Article 15 of the General Conditions of the Grant Contract. The JMA requires this report as it makes the payment of expenditure requested by the Beneficiary conditional on the factual findings of this report.

## **1.4 Engagement Type and Objective**

This expenditure verification is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Grant Contract. The objective of this expenditure verification is for the Auditor to carry out the specific procedures listed in Annex 2A to these ToR and to submit to the Beneficiary a report of factual findings with regard to the specific verification procedures performed. Verification means that the Auditor examines the factual information in the Financial Report of the Beneficiary and compares it with the terms and conditions of the Grant Contract.

As this engagement is not an assurance engagement the Auditor does not provide an audit opinion and expresses no assurance. The JMA assesses for itself the factual findings reported by the Auditor and draws its own conclusions from these factual findings.

## **1.5 Standards and Ethics**

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 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 JMA requires that the Auditor is independent from the Beneficiary and complies with the independence requirements of the Code of Ethics for Professional Accountants.

## **1.6 Procedures, Evidence and Documentation**

The Auditor plans the work so that an effective expenditure verification can be performed. The Auditor performs the procedures listed in Annex 2A of these ToR ('Listing of specific procedures to be performed') and applies the guidelines in Annex 2B (Guidelines for specific

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<sup>2</sup> Directive 2006/43 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.

procedures to be performed). The evidence to be used for performing the procedures in Annex 2A is all financial and non-financial information which makes it possible to examine the expenditure claimed by the Beneficiary in the Financial Report. The Auditor uses the evidence obtained from these procedures as the basis for the report of factual findings. The Auditor documents matters which are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance with ISRS 4400 and these ToR.

### **1.7 Reporting**

The report on this expenditure verification should describe the purpose, the agreed-upon procedures and the factual findings of the engagement in sufficient detail in order to enable the Beneficiary and the JMA to understand the nature and extent of the procedures performed by the Auditor and the factual findings reported by the Auditor.

The use of the Model Report for an Expenditure Verification of an EC Grant Contract in Annex 3 of these ToR is compulsory. This report should be provided by the Auditor to *<name of the Beneficiary>* within *<xx; number of working days to be indicated by the Beneficiary>* working days after the day of signature of these ToR.

### **1.8 Other Terms**

The fee for this engagement shall be *<fee amount and currency>* *<The Beneficiary may want to agree a fixed fee for the engagement or otherwise. The Beneficiary and the Auditor may want to agree specific terms if the Auditor needs to extend verification coverage from 65% to 100%. The Beneficiary should specify any reimbursable expenses and allowances (e.g. travelling, other) agreed with the Auditor and whether VAT and/or other relevant taxes are included in the fees/expenses.>*

*[The Beneficiary and the Auditor can use this section to agree any other specific terms]*

**Annex 1** Information about the Grant Contract

**Annex 2A** Listing of specific procedures to be performed

**Annex 2B** Guidelines for specific procedures to be performed

**Annex 3** Model report for an expenditure verification of an EC Grant Contract

**For the Beneficiary:**

Signature

*<name and capacity>*

*<date>*

**For the Auditor:**

Signature

*<name and capacity>*

*<date>*

## **Annex 1 Information about the Grant Contract**

**[Annex to be completed by the Beneficiary]**

<b>Information about the Grant Contract</b>	
Reference number and date of the Grant Contract	< JMA's reference of the Grant Contract>
Grant contract title	
Country	
Beneficiary	< full name and address of the Beneficiary as per the Grant Contract>
Legal basis for the Contract	
Start date of the Project	
End date of the Project	
Total cost of the Project	<amount in Art. 3.1 of the Special Conditions of the Grant Contract>
Grant maximum amount	<amount in Art. 3.2 of the Special Conditions of the Grant Contract>
Total amount received to date by the Beneficiary from JMA	< Total amount received as per dd.mm.yyyy>
Total amount of the payment request	< provide the total amount requested for payment as per Annex V of the General Conditions for Grant Contracts (Request for payment) >
Joint Managing Authority	<Provide the name, position/title, phone and E-mail of the contact person at the JMA.
Auditor	< Name and address of the audit firm and names/positions of the auditors>

## **Annex 2A Listing of Specific Procedures to be performed**

**[This Annex is a standard listing of specific procedures to be performed and it shall not be modified]**

### **1 GENERAL PROCEDURES**

#### **1.1 Terms and Conditions of the Grant Contract**

The Auditor obtains an understanding of the terms and conditions of the Grant Contract by reviewing the Grant Contract and its annexes and other relevant information, and by inquiry of the Beneficiary. The Auditor obtains a copy of the original Grant Contract (signed by the Beneficiary and the JMA) with its annexes. The Auditor obtains and reviews the Report (which includes a narrative and a financial section) as per Article 2.1 of the General Conditions.

#### **1.2 Financial Report for the Grant Contract**

The Auditor verifies that the Financial Report complies with the following conditions of Article 2 of the General Conditions the Grant Contract:

- The Financial Report must conform to the model in Annex VI of the Grant Contract;
- The Financial Report should cover the Project as a whole, regardless of which part of it is financed by the JMA;
- The Financial Report should be drawn up in the language of the Grant Contract;
- The proof of the transfers of ownership of equipment, vehicles and supplies (Article 7.3 of the General Conditions of the Grant Contract) should be annexed to the final Financial Report.

#### **1.3 Rules for Accounting and Record keeping**

The Auditor examines – when performing the procedures listed in this Annex - whether the Beneficiary complied with the following rules for accounting and record keeping of Article 16 of the General Conditions the Grant Contract:

- The accounts kept by the Beneficiary for the implementation of the Project must be accurate and up-to-date;
- The Beneficiary must have a double-entry book-keeping system;
- The accounts and expenditure relating to the Project must be easily identifiable and verifiable;
- The accounts must provide details of interest accrued on funds paid by the JMA.

#### **1.4 Reconciling the Financial Report to the Beneficiary's Accounting System and Records**

The Auditor reconciles the information in the Financial Report to the Beneficiary's accounting system and records (e.g. trial balance, general ledger accounts, sub ledgers etc.) (See Article 16.1).

#### **1.5 Exchange Rates**

The Auditor verifies that amounts of expenditure incurred in a currency other than the Euro have been converted at the exchange rate which is made up of the average of the rates published in InforEuro for the months covered by the Financial Report, unless otherwise provided in the Special Conditions of the Grant Contract (Article 15.9 of the General Conditions)

### **2 PROCEDURES TO VERIFY CONFORMITY OF EXPENDITURE WITH THE BUDGET AND ANALYTICAL REVIEW**

## **2.1 Budget of the Grant Contract**

The Auditor carries out an analytical review of the expenditure headings in the Financial Report.

The Auditor verifies that the budget in the Financial Report corresponds with the budget of the Grant Contract (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Contract.

## **2.2 Amendments to the Budget of the Grant Contract**

The Auditor verifies whether there have been amendments to the budget of the Grant Contract. Where this is the case the Auditor verifies that the Beneficiary has:

- requested an amendment to budget and obtained an addendum to the Grant Contract if such an addendum was required (Article 9.1 of the General Conditions).
- informed the JMA about the amendment in case the amendment was limited (Article 9.2 of the General Conditions) and an addendum to the Grant Contract was not required.

## **3 PROCEDURES TO VERIFY SELECTED EXPENDITURE**

### **3.1 Eligibility of Costs**

The Auditor verifies, for each expenditure item selected, the eligibility criteria set out below.

#### *(1) Costs actually incurred (Article 14.1)*

The Auditor verifies that the expenditure for a selected item was actually incurred by and pertains to the Beneficiary. For this purpose the Auditor examines supporting documents (e.g. invoices, contracts) and proof of payment. The Auditor also examines proof of work done, goods received or services rendered and he/she verifies the existence of assets if applicable.

#### *(2) Cut-off - Implementation period (Article 14.1a)*

The Auditor verifies that the expenditure for a selected item was incurred during the implementation period of the Project.

#### *(3) Budget (Article 14.1b)*

The Auditor verifies that the expenditure for a selected item was indicated in the Budget.

#### *(4) Necessary (Article 14.1c)*

The Auditor verifies whether it is plausible that the expenditure for a selected item was necessary for the implementation of the Project and that it had to be incurred for the contracted activities of the Project by examining the nature of the expenditure with supporting documents.

#### *(5) Records (Article 14.1d)*

The Auditor verifies that expenditure for a selected item is recorded in the Beneficiary's accounting system and was recorded in accordance with the applicable accounting standards of the country where the Beneficiary established and the Beneficiary's cost accounting practices.

#### *(6) Justified (Article 14.1e)*

The Auditor verifies that expenditure for a selected item is substantiated by evidence (see section 1 of Annex 2B, Guidelines for Specific Procedures to be performed) and notably the supporting documents as specified in Article 16.2 and 16.3 of the General Conditions of the Grant Contract.

#### *(7) Valuation*

The Auditor verifies that the monetary value of a selected expenditure item agrees with underlying documents (e.g. invoices, salary statements) and that correct exchange rates are used where applicable.

*(8) Classification*

The Auditor examines the nature of the expenditure for a selected item and verifies that the expenditure item has been classified under the correct (sub)heading of the Financial Report.

*(9) Compliance with Procurement, Nationality and Origin Rules*

Where applicable the Auditor examines which procurement, nationality and origin rules apply for a certain expenditure (sub)heading, a class of expenditure items or an expenditure item. The Auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents of the procurement and purchase process. Where the Auditor finds issues of non-compliance with procurement rules, he/she reports the nature of such events as well as their financial impact in terms of ineligible expenditure. When examining procurement documentation the Auditor takes into account the risk indicators listed in Annex 2B and he/she reports, if applicable, which of these indicators were found.

**3.2 Eligibility of Direct Costs (Article 14.2)**

If the expenditure for a selected item is recorded under one of the direct costs headings 1 to 7 of the Financial Report, the Auditor verifies that this type of expenditure is covered by the direct costs as defined in Article 14.2 by examining the nature of the expenditure items concerned.

**3.3 Provision for Contingency Reserve (Article 14.3)**

The Auditor verifies that the provision for contingency reserve (heading 9 Financial Report) does not exceed 5% of the direct eligible costs of the Project and that the Beneficiary has obtained prior written authorisation of the JMA for the use of this contingency reserve.

**3.4 Administrative costs (Article 14.4)**

The Auditor verifies that the indirect costs to cover the administrative overheads (heading 11 Financial Report) do not exceed 7% of the total amount of eligible direct costs of the Project.

**3.5 Contributions in kind (Article 14.5)**

The Auditor verifies that costs in the Financial Report do not include contributions in kind. Contributions in kind are not eligible costs.

**3.6 Non-eligible costs (Article 14.6)**

The Auditor verifies that the expenditure for a selected item does not concern a non-eligible cost as described in Article 14.6 of the General Conditions. The Auditor verifies whether expenditure includes certain taxes, including VAT. If this is the case the Auditor verifies whether the Beneficiary or, the partners cannot reclaim these taxes and whether the applicable regulations, rules and practices in the country concerned allow the coverage of these taxes in the expenditure.

**3.7 Revenues of the Project**

The Auditor examines whether revenues which should be attributed to the Project (including inter alia grants and funding received from other donors and other revenue generated by the Beneficiary and his partners in the context of the Project such as for example interest earned) have been allocated to the Project and disclosed in the Financial Report. For this purpose the Auditor inquires with the Beneficiary and examines documentation obtained from the Beneficiary.

## **Annex 2B Guidelines for Specific Procedures to be performed**

**[This Annex provides standard guidelines for the specific procedures to be performed and these guidelines shall not be modified]**

### **1 VERIFICATION EVIDENCE**

When performing the specific procedures listed in Annex 2A the Auditor may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations.

The Auditor obtains verification evidence from these procedures to draw up his report of factual findings. Verification evidence is all information used by the Auditor in arriving at the factual findings and it includes the information contained in the accounting records underlying the Financial Report and other information (financial and non-financial).

The contractual requirements that relate to verification evidence are:

- Expenditure should be identifiable, verifiable and recorded in the accounting records of the Beneficiary (Article 14.1.d) of the General Conditions of the Grant Contract);
- Expenditure must be easily identifiable and verifiable and traced to and within the Beneficiary's accounting and bookkeeping systems (Article 16.1 of the General Conditions);
- The Beneficiary will allow any external 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 Beneficiary give access to all documents and databases concerning the technical and financial management of the Project (Article 16.2 of the General Conditions);
- Article 16.3 of the General Conditions of the Grant Contract provides a list of the types and nature of evidence that the Auditor will often find in expenditure verifications.

Moreover, for the purpose of the procedures listed in Annex 2A, evidence:

- Must be available in documentary form, whether paper, electronic or other medium (e.g. a written record of a meeting is more reliable than an oral presentation of the matters discussed);
- Must be available in the form of original documents rather than photocopies or facsimiles;
- Should preferably be obtained from independent sources outside the entity (an original suppliers invoice or contract is more reliable than an internally approved receipt note);
- Which is generated internally is more reliable if it has been subject to control and approval;
- Obtained directly by the Auditor (e.g. inspection of assets) is more reliable than evidence obtained indirectly (e.g. inquiry about the asset).

If the Auditor finds that the above criteria for evidence are not sufficiently met, he/she should detail this in the factual findings.

### **2 OBTAINING AN UNDERSTANDING OF THE TERMS AND CONDITIONS OF THE GRANT CONTRACT (ANNEX 2A - PROCEDURE 1.1)**

The Auditor obtains an understanding of the terms and conditions of the Grant Contract and he/she should pay particular attention to Annex I of the Grant Contract, (the Description of the Project), Annex II (General Conditions) and Annex IV (Contract Award procedures), which provides rules for procurement (including nationality and origin rules) by grant beneficiaries in the context of EC external actions. Failure to comply with these rules makes

expenditure ineligible for Community financing. The Auditor ensures with the Beneficiary that the applicable nationality and origin rules are identified and understood. Applicable rules of nationality and origin are set out, for each legal basis, in Annex A2 to the Practical Guide<sup>3</sup> to contract procedures for external actions of the European Communities.

If the Auditor finds that the terms and conditions to be verified are not sufficiently clear he should request clarification from the Beneficiary.

### **3 SELECTING EXPENDITURE FOR VERIFICATION (ANNEX 2A - PROCEDURES 3.1 – 3.7)**

The expenditure claimed by the Beneficiary in the Financial Report is presented under the following expenditure headings: 1 *Human Resources*, 2 *Travel*, 3 *Infrastructures*; 4 *Equipment and Supplies*, 5 *Offices*, 6 *Subcontracted services*, 7 *Other*, 9 *Provision for contingency reserve* and 11 *Administrative costs*. Expenditure headings 1 to 7 represent direct eligible costs of the Project. Expenditure headings can be broken down into expenditure subheadings such as for example 1.1 *Technical staff*.

Expenditure subheadings can be broken down into individual expenditure items or classes of expenditure items with the same or similar characteristics. The form and nature of the supporting evidence (e.g. a payment, a contract, an invoice etc) and the way expenditure is recorded (i.e. journal entries) vary with the type and nature of the expenditure and the underlying actions or transactions. However, in all cases expenditure items should reflect the accounting (or financial) value of underlying actions or transactions no matter the type and nature of the action or transaction concerned.

Value should be the principal factor used by the Auditor to select expenditure items or classes of expenditure items for verification. The Auditor selects high value expenditure items to ensure an appropriate coverage of expenditure.

### **4 VERIFICATION COVERAGE OF EXPENDITURE (ANNEX 2A - PROCEDURES 3.1 – 3.7)**

The Auditor applies the principles and criteria set out below when planning and performing the specific verification procedures for selected expenditure in Annex 2A (procedures 3.1 – 3.7).

Verification by the Auditor and verification coverage of expenditure items does not necessarily mean a complete and exhaustive verification of all the expenditure items that are included in a specific expenditure heading or subheading. The Auditor should ensure a systematic and representative verification. Depending on certain conditions (see further below) the Auditor may obtain sufficient verification results for an expenditure heading or subheading by looking at a limited number of selected expenditure items. However the Auditor shall check **100%** of the Infrastructure and Equipment headings.

The Auditor may apply statistical sampling techniques for the verification of one or more expenditure headings or subheadings of the Financial Report. The Auditor examines whether 'populations' (i.e. expenditure subheadings or classes of expenditure items within expenditure subheadings) are suitable and sufficiently large (i.e. are made up of large numbers of items) for effective statistical sampling.

If applicable the Auditor should explain in the report of factual findings for which headings or subheadings of the Financial Report sampling has been applied, the method used, the results obtained and whether the sample is representative.

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 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.

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<sup>3</sup> Practical Guide (applicable for Budget and EDF) and annexes for Budget and EDF  
see:[http://ec.europa.eu/europeaid/work/procedures/implementation/practical\\_guide/index\\_en.htm](http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/index_en.htm)

The Auditor ensures that the overall ECR is at least **65%** (unless 100% is required by an EU Member State). 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%**.

## **5 PROCEDURES TO VERIFY SELECTED EXPENDITURE (ANNEX 2A - PROCEDURES 3.1 – 3.7)**

The Auditor verifies the selected expenditure items by carrying out procedures 3.1 - 3.7 listed in Annex 2A and reports all the factual findings and exceptions resulting from these procedures. Verification exceptions are all verification deviations found when performing the procedures set out in Annex 2A.

The Auditor quantifies the amount of the verification exception found and the potential impact on the JMA contribution, should the JMA declare the expenditure item(s) concerned ineligible (where applicable taking into account the percentage of funding of the JMA and the impact on indirect expenditure (e.g. administrative costs)). The Auditor reports all exceptions found including the ones of which he cannot quantify the amount of the verification exception found and the potential impact on the JMA contribution.

*For example:* if the Auditor finds an exception of 1.000€ with regard to procurement rules for a grant contract where the JMA finances 90% of the expenditure and where administrative costs of 7% of total direct eligible expenses are foreseen, the Auditor reports an exception of 1.000€ and a financial impact of 963€ ( $1.000\text{€} \times 90\% \times 1.07$ ).

### *Specific guidance for procedure 3.1.9 Compliance with Procurement, Nationality and Origin Rules*

The Auditor should verify whether the expenditure for a selected item was incurred in accordance with the applicable procurement, nationality and origin rules by examining the underlying documents of the procurement and purchase process. Such documents relate to the opening of tenders, the assessment of the eligibility of tenderers and conformity of tenders, the evaluation of the offers and the decisions with regard to the awarding of the contract. When examining these procurement documents the Auditor takes into account the risk indicators listed at the end of this Annex and he reports, if applicable, which of these indicators were identified.

### *Specific guidance for procedure 3.5 Contributions in kind*

The Auditor should verify that expenditure in the Financial Report does not include any contributions in kind.

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## RISK INDICATORS PROCUREMENT

- Inconsistencies in the dates of the documents or illogical sequence of dates.  
Examples:
  - Offer dated after the award of contract or before the sending of the invitations to tender
  - Offer of the winning tenderer dated before the publication date of the tender or dated significantly later than offers of other tenderers
  - Offers of different candidates participating in the same tenders all having the same date
  - Dates on documents not plausible/consistent with dates on accompanying documentation (e.g. date on the offer not plausible/consistent with the postal date on the envelope; date of a fax not plausible/consistent with the printed date of the fax machine)
- Unusual similarities in offers of candidates participating in the same tender.  
Examples:
  - Same wording, sentences and terminology in offers of different tenderers
  - Same layout and format (e.g. font type, font size, margin sizes, indents, paragraph wrapping, etc) in offers of different tenderers
  - Similar letterhead paper or logos
  - Same prices used in offers of different tenderers for a number of subcomponents or line items
    - Identical grammatical, orthographical or typing errors in offers of different tenderers
    - Use of similar stamps and similarities in signatures
- Financial statement or other information indicating that two tenderers participating in the same tender are related or part of a same group (e.g. where financial statements are provided, the notes to the financial statements may disclose ultimate ownership of the group. Ownership information may also be found in public registers for accounts)
- Inconsistencies in the selection and award decision process. Examples:
  - Award decisions not plausible / consistent with selection and award criteria
  - Errors in the application of the selection and award criteria
  - A regular supplier of the beneficiary participates as a member of a tender evaluation committee
- Other elements and examples indicating a risk of privileged relationship with tenderers:
  - A same tenderer (or small group of tenderers) is invited to different tenders with unusual frequency
  - A same tenderer (or small group of tenderers) wins an unusually high proportion of the bids
  - A tenderer is frequently awarded contracts for different types of goods or services
  - The winning tenderer invoices additional goods not foreseen in the offer (e.g.

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additional spare parts invoiced without clear justification, installation costs invoiced while not foreseen in the offer).

- Other documentation, issues and examples indicating a risk of irregularities:
    - Use of photocopies instead of original documents
    - Use of pro-forma invoices as supporting documents instead of official invoices
    - Manual changes on original documents (e.g. figures manually changed, figures "tippexed", etc)
    - Use of non-official documents (e.g. letterhead paper not showing certain official and/or compulsory information such as commercial registry number, company tax number, etc.)
-

**HOW TO USE THIS MODEL REPORT? All text highlighted in yellow in this model report is for instruction only and auditors should remove it after use. Information requested in the following form <.....> (e.g. <name of the beneficiary> must be completed by the auditor.**

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**<To be printed on AUDITOR'S letterhead>**

**Report for an Expenditure Verification of a Grant Contract  
EXTERNAL ACTIONS OF THE EUROPEAN COMMUNITY**

**<Title of and number of the Grant Contract >**

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**Report of Factual Findings**

*<Name of contact person(s)>, < Position>*

*< Beneficiary's name>*

*<Address>*

*<dd Month yyyy>*

Dear *<Name of contact person(s)>*

In accordance with the terms of reference dated *<dd Month yyyy>* that you agreed with us, we provide our Report of Factual Findings ("the Report"), with respect to the accompanying Financial Report for the period covering *<dd Month yyyy - dd Month yyyy>* (Annex 1 of this Report). You requested certain procedures to be carried out in connection with your Financial Report and the Grant Contract financed under the ENPI CBC Mediterranean Sea Basin Programme concerning *<title and number of the contract>*, the 'Grant Contract'.

**Objective**

Our 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 Joint Managing Authority of the ENPI CBC Mediterranean Sea Basin Programme (the JMA). 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**

Our 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, we have only performed the procedures listed in Annex 2A of the terms of reference for this engagement (see Annex 2 of this Report).

These procedures have been determined solely by the JMA and the procedures were performed solely to assist the JMA in evaluating whether the expenditure claimed by you in the accompanying Financial Report is eligible in accordance with the terms and conditions of the Grant Contract.

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

Had we performed additional procedures or had we 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 our attention that would have been reported to you.

### **Sources of Information**

The Report sets out information provided to us by you in response to specific questions or as obtained and extracted from your accounts and records.

### **Factual Findings**

The total expenditure which is the subject of this expenditure verification amounts to <xxxxxx> €.

The Expenditure Coverage Ratio is <xx%>. This ratio represents the total amount of expenditure verified by us expressed as a percentage of the total expenditure which has been subject of this expenditure verification. The latter amount is equal to the total amount of expenditure reported by you in the Financial Report and claimed by you for deduction from the total sum of pre-financing under the Grant Contract as per your Request for Payment of <dd Month yyyy>.

We report the details of our factual findings which result from the procedures that we performed 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 your own confidential use and solely for the purpose of submission by you to the JMA 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 you for any other purpose, nor may it be distributed to any other parties.

The JMA is not a party to the agreement (the terms of reference) between you and us and therefore we do not owe or assume a duty of care to the JMA who may rely upon this expenditure verification report at its own risk and discretion. The JMA can assess for itself the procedures and findings reported by us and draw its own conclusions from the factual findings reported by us.

The JMA may only disclose this Report to others who have regulatory rights of access to it in particular the European Commission [*Delete if the Commission is the Contracting Authority*], 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 of your financial statements.

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

Yours sincerely

**<dd Month yyyy>,**

**<Name of the Auditor>**

## **1 INFORMATION ABOUT THE GRANT CONTRACT**

**[Chapter 1 should include a brief description of the Grant Contract and the Project, the Beneficiary/ implementing structure and key financial/budget information. (maximum 1 page)]**

## **2 PROCEDURES PERFORMED AND FACTUAL FINDINGS**

We have performed the specific procedures listed in Annex 2A of the terms of reference for the expenditure verification of the Grant Contract ('ToR') . These procedures cover:

- 1 General Procedures
- 2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review
- 3 Procedures to verify selected Expenditure

We have applied the rules for selection of expenditure and the principles and criteria for verification coverage as set out in Annex 2B (sections 3 and 4) of the ToR for this expenditure verification.

**[Explain here difficulties or problems encountered if any]**

The total expenditure verified by us amounts to <xxxx> € and is summarised in the table below. The overall Expenditure Coverage Ratio is <xx%>.

**[Provide here a summary table of the Financial Report in Annex 1, presenting for each (sub) heading the total expenditure amount reported by the Beneficiary, the total expenditure amount verified and the percentage of expenditure covered]**

We have verified the selected expenditure as shown in the above summary table and we have carried out, for each expenditure item selected, the verification procedures specified at point 3.1 to 3.7 of Annex 2A of the ToR for this expenditure verification.

We report our factual findings resulting from these procedures below:

### **1. General Procedures**

#### **1.1 Terms and Conditions of the Grant Contract**

We have obtained an understanding of the terms and conditions of this Grant Contract in accordance with the guidelines in Annex 2B (section 2) of the ToR.

**[Describe factual findings and specify errors and exceptions. *Procedures 1.1 - 1.5 in Annex 2A*]**

#### **1.2 Financial Report for the Grant Contract**

#### **1.3 Rules for Accounting and Record keeping**

#### **1.4 Reconciling the Financial Report to the Beneficiary's Accounting System and Records**

#### **1.5 Exchange Rates**

### **2. Procedures to verify conformity of Expenditure with the Budget and Analytical Review**

#### **2.1 Budget of the Grant Contract**

#### **2.2 Amendments to the Budget of the Grant Contract**

**[Describe factual findings and specify errors and exceptions. *Procedures 2.1 – 2.2 in Annex 2A*]**

### **3 Procedures to verify selected Expenditure**

We have reported further below all the exceptions resulting from the verification procedures specified at point 3.1 – to 3.7 of Annex 2A of the ToR for this expenditure verification insofar these procedures did apply to the selected expenditure item.

We have quantified the amount of the verification exceptions found and the potential impact on the JMA contribution, should the JMA declare the expenditure item(s) concerned ineligible (where applicable taking into account the percentage of funding of the JMA and the impact on indirect expenditure (e.g. administrative costs)). We have reported all exceptions found including the ones of which we cannot quantify the amount of the verification exception found and the potential impact on the JMA contribution.

*[Specify for which expenditure amounts / items exceptions between facts and criteria were found, the nature of the exception – this means which of the specific condition or conditions described at point 3.1 to 3.7 of Annex 2A of the ToR were not respected. Quantify the amount of the verification exception found and the potential impact on the JMAe contribution, should the JMA declare the expenditure item(s) concerned ineligible]*

#### **3.1 Eligibility of Costs**

We have verified, for each expenditure item selected, the eligibility criteria set out at procedure 3.1 in Annex 2A of the ToR for this expenditure verification.

*[Describe factual findings and specify errors and exceptions. **Procedure 3.1 in Annex 2A:** eligibility of costs and the eligibility criteria (1) to (9). **Example:** we found that an expenditure amount of 6.500 € included in subheading 4.3 (Computer hardware/software) of the Financial Report was not eligible. An amount of 2.000€ related to expenditure incurred outside the implementation period. Supporting evidence was not available for 3 transactions totalling 1.200€. The required procurement rules for purchases of office computers for 3.300€ were not respected. (Note: relevant details such as accounting record references or documents should be provided).]*

#### **3.2 Eligibility of Direct Costs (Article 14.2)**

#### **3.3 Provision for Contingency Reserve (Article 14.3)**

#### **3.4 Administrative costs (Article 14.4)**

#### **3.5 Contributions in kind (Article 14.5)**

#### **3.6 Non-eligible costs (Article 14.6)**

#### **3.7 Revenues of the Project**

*[Describe factual findings and specify errors and exceptions. **Procedures 3.2 - 3.7 in Annex 2A**]*

### **ANNEX 1 FINANCIAL REPORT FOR THE GRANT CONTRACT**

*[Annex 1 should include the Beneficiary's financial report for the Grant Contract which has been the subject of the verification. The financial report should be **dated** and indicate the period covered.]*

### **ANNEX 2 TERMS OF REFERENCE EXPENDITURE VERIFICATION**

*[Annex 2 should include a **signed** and **dated** copy of the terms of reference for the expenditure verification of this Grant Contract including **Annex 1** (information about the Grant Contract) and **Annex 2A** (Listing of the specific procedures to be performed).]*