**Terms of Reference for an Expenditure AND REVENUE Verification of a Grant Contract FUNDED BY THE KARELIA CBC PROGRAMME 2014-2020**

The following are the terms of reference on which <*name of the Lead Partner/Reporting Partner/Invoicing Partner*> ‘the Partner’ agrees to engage <*name of the audit firm*> ‘the Auditor’ to perform expenditure and revenue verification and to report factual findings concerning the Project <***identification number and name of the projec****t*> funded by the Karelia CBC Programme.

The role of the Partner in this project is <*Lead Partner/Reporting Partner/Invoicing Partner*>.

Where in these Terms of Reference the ‘Managing Authority’ is mentioned this refers to the Karelia CBC Programme managed by the Council of Oulu Region which has signed the Grant Contract with the Lead Partner and is providing the grant funding. The Managing Authority is not a party to this agreement.

**Parties of the Terms of Reference for an Expenditure and Revenue Verification (later ‘Terms of Reference’):**

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| Full official name of the Lead Partner organization or Reporting Partner organisation or Invoicing Partner organization (later ‘Partner’): *<name and address>* *<Official registration number>**<VAT number>*  |
| In case of Invoicing Partner, full official name of the partner organization (later ‘Reporting Partner’) in whose financial reports the Invoicing Partner’s expenditure and revenue are reported: *<name and address>* *<Official registration number>**<VAT number>* |
| In case of partner organization (later ‘Reporting Partner’) reporting in its financial reports also the expenditure and revenue of the Invoicing Partner, full official name of the Invoicing Partner organization: *<name and address>* *<Official registration number>**<VAT number>* |
| Full official name of the audit firm (later ‘Auditor’):  *<name and address>*  *<name of the person responsible for the engagement and for the report of factual findings>**<Official registration number>**<VAT number>*  |

**Information about the Terms of** **Reference for an Expenditure and Revenue Verification (later ‘Terms of Reference’):**

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| Period covered by the Terms of Reference: *<start date and end date of the implementation period>*  |
| Subject of the engagement and the Terms of Reference:*tick the most appropriate option(s)* |
|[ ]  Interim and final financial reports (in case of Lead Partner or Reporting Partner)  |
|[ ]  Interim and final financial reports (in case of Reporting Partner reporting in its financial reports also the expenditure and revenue of the Invoicing Partner) |
|[ ]  Interim and final financial reports (in case of Invoicing Partner reporting its expenditure and revenue in the financial reports of the Reporting Partner) |
|[ ]  Consolidated Financial Report (in case of Lead Partner) |

**Information about the Grant Contract and the Project:**

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| Date of the Grant Contract: <*date of the Grant Contract>* |
| Implementation period of the Project:*<start date and end date of the implementation period>* |
| Total budget of the Project and/or partner budget:*<total amount of project and/or partner budget in Euro>* |

## 1.1. Responsibilities of the Parties to the Engagement

‘The **Partner’** refers to the organisation acting as the **<*Lead Partner or Reporting Partner or Invoicing Partner*>** of the Project, and receiving the grant funding.

‘The **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.

* The Partner is responsible for providing interim and final financial reports for the Project financed by the Karelia CBC Programme. The Partner is obligated to comply with the terms and conditions of the Grant Contract and for ensuring that the interim and final financial reports can be reconciled to the Partner’s accounting system and to the underlying accounts and records. The Partner is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the interim and final financial reports.
* The Partner accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Partner, and as the case may be his partners, providing full and free access to the Partner’s staff and its accounting system and underlying accounts and records. The Partner allows the Auditor to carry out verifications on the basis of supporting documents for the accounts, accounting documents and any other document relevant to the financing of the Project. The Partner gives access to all documents and databases concerning the technical and financing management of the Project. The records, accounting and supporting documents shall be easily accessible and filed so as to facilitate their examination. The Partner is obligated to provide any document relevant to the financing of the Project in case the document is requested by the Auditor.
* TheAuditor is responsible for performing the agreed-upon procedures as specified in these Terms of Reference, and for submitting the following two properly filled-in and signed documents (including annexes) to the Partner: ‘Annex 2 Report for Expenditure Verification and Factual Findings’ and ‘Annex 3 Checklist for the Expenditure Verification’. The auditor is obliged to describe under each headline of the ‘Annex 2 Report for Expenditure Verification and Factual Findings’ the following: what has been verified, and what are the results of the verification. The auditor is responsible for providing a clear and informative statement about the eligibility of the reported and verified expenditure and a comprehensive list of all exceptions found whether or not the Auditor can quantify the amount of the verification exception and the potential impact on the Programme contribution.
* In case of identification of suspected and/or established fraud, the Auditor shall submit the report ‘Annex 5 Template of report on suspected and/or established fraud’ without delay directly to the Managing Authority, without any need of informing the concerned Partner. This report shall not be submitted to the Partner:
* Should the Managing Authority have any questions or any doubts concerning the findings in the ‘Annex 2 Report for Expenditure Verification and Factual Findings’ and its annexes, the Auditor will receive a request for clarification via the Partner (in case of Invoicing Partner, via the Reporting Partner), which shall be answered in a maximum of 7 calendar days.
* In case the Auditor is responsible for performing the agreed-upon procedures as specified in these Terms of Reference and for submitting the properly filled-in and signed documents to one or more Partners of a project, the Terms of Reference and the aforementioned properly filled-in and signed documents are drawn up to each Partner separately.
* In case the Partner’s interim and final financial reports include the expenditure and revenue of the Partner and the Invoicing Partner, the Auditor reports the factual findings and results of the expenditure and revenue verification regarding the expenditure of the Invoicing Partner in the expenditure verification report of the Partner. ‘Annex 3 Checklist for the Expenditure Verification’ shall be drawn up to the Partner and the Invoicing Partner separately.
* The Partner and the Auditor agree that this engagement is to perform expenditure and revenue verification and to report factual findings regarding expenditure and revenue incurred and reported by the Partner in their own territory. This means that the Finnish audit firm performs the expenditure verification to the expenditure and revenue reported by the Finnish Partner and the Russian audit firm performs the expenditure verification to the expenditure and revenue reported by the Russian Partner.
* The language of the Terms of Reference, including the reports, shall be in English.
* The Auditor shall attend the specific trainings and meetings for Auditors organized by the competent Programme bodies. The Managing Authority may request the termination of the Terms of Contract with Auditor(s) not attending to these events.

**1.2. Condition of the audit firm**

By agreeing these Terms of Reference the Auditor confirms that he/she meets at least one of the following conditions*:*

*tick the most appropriate option*

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|[ ]  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. Where this organisation is not a 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 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)[[1]](#footnote-1). |
|[ ]  The Auditor and/or the firm is registered as a statutory auditor in the public register in the Russian Federation, provided this register is subject to principles of public oversight as set out in the legislation of the Russian Federation. |

## 1.3. 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 International Federation of Accountants (IFAC);

- IFAC Code of Ethics for Professional Accountants developed and issued by the IFAC’s International Ethics Standards Boards for Accountants (IESBA), which established fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Managing Authority requires that the Auditor is independent from the Partner and complies with the independence requirements of the Code of Ethics for Professional Accountants.

## 1.4. Reason for the Engagement

The Partner is required to submit to the Managing Authority expenditure and revenue verification reports produced by an external auditor in support of the payments requested by the Lead Partner under Article 16 of the **‘**Annex IIConditions applicable to Grant Contracts financed by the Karelia CBC Programme’ of the Grant Contract. The Managing Authority requires these reports as it makes the payments of expenditure requested by the Lead Partner conditional on the factual findings of these reports.

## 1.5. Procedures, Evidence and Documentation

The expenditure and revenue verification is an engagement to perform certain agreed-upon procedures, for the implementation period of the Project, with regard to the interim and final financial reports for the Grant Contract. The objective of the expenditure and revenue verification is for the Auditor to carry out the specific procedures listed in the documents annexed to the Terms of Reference and to submit to the Partner a report of factual findings with regard to the specific verification procedure performed.

The Auditor plans the work so that an effective expenditure and revenue verification can be performed. Verification means that the Auditor examines the factual information in the interim and final financial reports of the Partner and compares it with the terms and conditions of the Grant Contract. The Auditor performs the procedures listed in the ‘Annex 1 Guidelines for the Expenditure Verification’ and ‘Annex 3 Checklist for the Expenditure Verification’ to the Terms of Reference and uses as evidence all financial and non-financial information which makes it possible to examine the expenditure and revenue declared by the Partner in the interim and final financial reports. 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 Terms of Reference.

## 1.6. Reporting

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

Based on the Auditor’s verifications and the evidence obtained from the procedures, the Auditor shall express an opinion on the eligibility of the Partner’s expenditure reported in the interim and final financial reports. The Managing Authority assesses for itself the factual findings reported by the Auditor and draws its own conclusions from these factual findings.

The use of the report of factual findings, ‘Annex 2 Report for Expenditure Verification and Factual Findings’, annexed to this Terms of Reference **is compulsory**. This report should be provided by the Auditor to the Partnerwithin 30 calendar days from submission of each financial report by the Partner. The interim and final financial reports shall include all necessary financial and non-financial information in order to perform the expenditure and revenue verification on the Partner’s expenditure.

## 1.7. Quality control

## The Managing Authority and the Audit Authority shall carry out quality control of the expenditure verification work carried out, including the examination of the working papers, at any moment during and after the implementation period of the Project. The European Commission, the European Anti-Fraud Office, the European Court of Auditors, the Group of Auditors, Control Contact Point of the country of the Partner, representatives of national authorities involved in the implementation and financing of the Programme and any representatives or external auditor authorized by the Managing Authority or one of the above-mentioned institutions and bodies may also carry out verifications and controls.

As a result of the quality control, the Managing Authority may request the Partner an early termination of the Terms of Reference with the Auditor(s) and/or to exclude the Auditor from any expenditure verification work in the Programme for any project. In case of early termination of the Terms of Reference with the Auditor(s), the termination shall be free of charge for the Partner.

## 1.8. Settlement of disputes and applicable law

## Any disputes arising out of or relating to the Terms of Reference which cannot be settled amicably, shall be referred to the exclusive jurisdiction of the courts of location of the Partner. This Terms of Reference shall be governed by the law of the country of the Partner.

## 1.9. Payment

The fee for this engagement shall be <*fee amount and currency including/excluding VAT>*

<The fee for the expenditure and revenue verification of the Invoicing Partner is included in the fee of the Reporting Partner.>

The payments shall be made in accordance with the following option:

|  |  |
| --- | --- |
| Report | EUR or RUB, including/excluding VAT |
| First Interim Report | <X% of the contract value> |
| Second Interim Report | <X% of the contract value> |
| Final Report | <X% of the contract value> |
|  | <Total contract value> |

## 1.10. Order of precedence of Terms of Reference documents

## The following documents shall be deemed to form and be read and construed as part of this Terms of Reference, in the following order of precedence:

* Grant Contract (including annexes ‘Annex I: Project plan’, **‘**Annex II:Conditions applicable to Grant Contracts financed by the Karelia CBC Programme’ and ‘Annex III: Project Budget’) and/or Partnership Agreement (including annexes) related to the Grant Contract
* **‘**Programme Manual’
* **‘**Annex 1 Guidelines for the Expenditure Verification’

In addition, the following documents are annexed to the Terms of Reference:

* **‘**Annex 2 Report for Expenditure Verification and Factual Findings’ (reporting template)
* **‘**Annex 3 Checklist for the Expenditure Verification’ (reporting template)
* ‘Annex 4 List of Ineligible Expenditure’ (reporting template)
* ‘Annex 5 Report on suspected and/or established fraud’ (reporting template)

The various documents making up the Terms of Reference shall be deemed to be mutually explanatory; in cases of ambiguity or divergence, they shall prevail in the order in which they appear above. Addenda shall have the order of precedence of the document they are amending.

**A copy of these Terms of Reference, signed by the Partner and the Auditor, is submitted to the Managing Authority together with the ‘Annex 2 Report for Expenditure Verification and factual findings’ relating to the Partner’s Payment Request for the first interim payment.**

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| **For the Partner:**Signature<*name and title*>*<Name of organisation/company>*<*date*> | **For the Auditor:**Signature<*name and title*>*<Name of organisation/company>*<*date*> |

1. Directive 2006/43/EC 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 (OJ L 157, 9.6.2006, p. 87). [↑](#footnote-ref-1)