**Terms of Reference**

**For External Expenditure Verification**

**General information about the assignment:**

**Organization:** Regional Youth Cooperation Office (RYCO)

**Assignment:** Expenditure Verification of RYCO´s grant beneficiaries

**Duration of the assignment:** 01.12.2020 – 31.08.2021

**Work base:** Capitals ofWestern Balkan 6

**Start date of the contract**: December 2020

1. **Background:**

**About RYCO**

RYCO is an intergovernmental organization that stewards and promotes regional, cross- border and intercultural cooperation within and among its six Western Balkan Contracting Parties: Albania, Bosnia and Herzegovina, Kosovo\*[[1]](#footnote-1), Montenegro, North Macedonia and Serbia. RYCO’s program focuses on creating opportunities for young people to engage in activities that build mutual understanding and reconciliation in the civic, social, educational, cultural, and sports domains. RYCO initiates and participates in policy making and advocates for reform. It supports the development of a political and social environment that empowers and facilitates youth exchange.

1. **Objective and Scope of the Assignment**

A key instrument enabling RYCO to fulfil its mission is grant-making; developing tailored calls for proposals that enable CSOs and schools to engage in initiatives that contribute to mutual understanding of youth from various communities across RYCO’s Contracting Parties, thus contributing to reconciliation and youth participation.

Under its second Call for Proposal (CfP), RYCO has awarded **44** Grant Beneficiaries (GB) of which in Albania 7 GBs, in BiH 7 GBs, in Kosovo 4 GBs, in Montenegro 3 GBs, in North Macedonia 7 GBs and in Serbia 16 GBs. RYCO-s sub granting scheme, under the second CfP is co-funded by UNDP. Partnership composition of the GBs is in the forms of consortiums of CSOs and high schools, which are implementing 3-9 months’ regional projects. The size of projects varies from EUR 13,000 - EUR 72,000.

The third Call for Proposals is co-funded by theGerman Ministry of Foreign Affairs and is entirely focused on supporting and empowering secondary schools. 20 Grant Beneficiaries were awarded under the third open call of which in Albania 3 GBs, in BiH 3 GBs, in Kosovo 2 GBs, in Montenegro 1 GB, In North Macedonia 3 GBs and in Serbia 8 GBs. The size of the projects varies from EUR 10,000 - EUR 20,000.

RYCO is looking for an Audit company (`The Auditor`) to perform expenditure verification of the sub-grantees of the 2nd and 3rd open call.

***The total estimated expenditures which are the subject of this expenditure verification amounts to 1,528,061 EUR.***

The Auditor will be responsible for performing the agreed-upon procedures as specified in these ToR with the objectives to verify that the expenditure claimed by the Beneficiaries in the Financial Report for the action financed by the Grant Contract has occurred (‘reality’), are accurate (‘exact’) and eligible. Eligibility means that the funds released to the grant beneficiaries have been spent in accordance with the terms and conditions of the Grant Contract. The Auditor should submit to RYCO a report of factual findings with regard to the agreed-upon procedures performed.

The expenditure verification will be performed as desk review and/or field work at RYCO offices or respective locations of grant beneficiaries (lead applicants).

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 IFAC Code of Ethics for Professional Accountants, developed and issued by IFAC’s International Ethics Standards Board for Accountants (IESBA), which establishes fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behavior and technical standards.

1. **Verification Process and Methodology**

**3.1 Preparation of the Verification**

The Contracting Authority will provide to the Auditor all the documentation submitted by grant beneficiaries in order to perform the verification.

**3.2 Preparatory Meeting, Desk Review**

The *desk review and/or field work* shall commence as soon as possible and not later than 5 calendar days after the date of availability of the Financial Reports (i.e. financial report, supporting documents and other relevant information).

* 1. **Engagement Context**

The Auditor should pay specific attention to the contractual provisions relevant for the following aspects:

* documentation, filing and record keeping for expenditure and income;
* eligibility of expenditure and income;
* procurement rules;
* asset management (management and control of fixed assets; e.g. equipment).
* cash and bank management (treasury);
* payroll and time management;
* accounting (including the use of exchange rates) and financial reporting of expenditure and income; and

The understanding should be sufficient to identify and assess the risks of material errors or misstatements in the expenditure and revenue stated in the Financial Reports in order to determine the size and structure of the expenditure sample to be tested, whether caused by error or fraud, and sufficient to design and perform further verification procedures.

**3.4 Debriefing Memo and Closing Meeting**

At the end of the *desk review and/or field work*, the Auditor should prepare a debriefing memo within 15 days from the receipt of the Final Financial Report and supporting documents, in coordination with RYCO to contact the beneficiary in order to discuss the findings, obtain its initial comments and agree on additional information to be provided at a later date, maximum within 10 working days.

**3.5 Complimentary Letter**

The Auditor may at any time during the expenditure verification process draw up a complimentary letter to inform RYCO about facts and issues that are considered of particular interest and importance. Suspicions of fraud or irregularity should be reported immediately.

* 1. **Reporting**

**3.6.1 Structure and Content of the Report**

The use of the Expenditure Verification report template in Annex 3 of these ToR, including the annexed tables, is **compulsory.**

A separate and specific report should be issued for each Grant Beneficiary Contract and detail the findings identified through the performance of the agreed-upon procedures. The Auditor will submit the final reports to RYCO within mid-February 2021 for the expenditure verification of grant beneficiaries of 2nd open call and within 30th of June 2021 for the expenditure verification of grant beneficiaries of 3rd open call.

Verification coverage of expenditure will include a complete and exhaustive verification of all the expenditure items that are included in a specific expenditure heading or subheading. This verification should cover 100% of expenditure.

**3.7 Subcontracting**

The Auditor will not subcontract without prior written authorization from the Contracting Authority.

**Annexes**

Annex 1 – Information about the grant contract

Annex 2 – Listing of specific procedures to be performed

Annex 3 - Model for Expenditure Verification Report

1. **Indicative budget and payment modality**

The selected expert/audit company/ies will be invited to sign a service contract with RYCO. The Contract will be realized in Euro and the Payment will be conducted in one instalment after successfully providing the final reports for all contracts verified.

The reports should be submitted in English.

The final reports should be delivered on completion of the engagement.

The financial offer including the taxes cannot exceed 3% of the estimated amount subject of this expenditure verification.

The Auditor is responsible for paying all the taxes related to this assignment.

1. **Qualifications and Experience**

* The auditing company should be registered in one of the Western Balkan 6 contracting parties, but should demonstrate having team members from each contracting party within Western Balkan 6. When presenting the proposal, if the auditing company doesn’t meet the aforementioned criteria, may enter into consortium with other auditing companies in each of WB6 contracting parties, or enter into expertise contract with Audit Experts in WB6. The rendering of audit services and audit coordination is responsibility of the leading company. If consortium is applied, the audit company should provide copies of MoU-s with other audit companies in each of WB6. Otherwise if contractual expertise with Audit experts in WB6 is applied, should be submitted expressions of interest as well as Declaration of commitment to enter into expertise contract with Audit Experts in WB6 if the application result successful.
* The audit company should be a member of the national regulatory body, in one of the WB6 contracting parties. Copies of relevant certification should be provided to the contracting authority
* The Audit team assigned for the purpose of this contract should be composed of Certified Auditors in all WB6 contracting parties. Copies of relevant certification should be provided to the contracting authority.
* The audit company responsible to perform the audit should be a member of an international network of auditing companies. Copies of relevant membership certification should be provided to the contracting authority.
* The audit engagement partner should have at least 10 years of proven experience with audits/expenditure verifications in the Western Balkans 6 and donor funded projects.
* The person appointed as the Audit Manager should be a Certified Auditor in one of the WB6 contracting parties (registered accounting expert) with at least 15 years of audit experience. Copies of relevant certification should be provided to the contracting authority.
* The company should have at least one Certified Auditor (registered accounting expert) with at least 10 years’ membership in an internationally recognized accounting body (ACCA or CPA). Copies of relevant membership certification should be provided to the contracting authority.
* The audit company should possess sufficient knowledge of relevant laws, regulations and rules of each Contracting Party of the Western Balkans 6. This includes but is not limited to taxation, social security and labor regulations, accounting and reporting.
* The audit company should have experience on monitoring granting / sub-granting schemes, recommendations and practices. A copy of a reference from a client or copies of a contract should be submitted.
* Fluency in English

1. **Application process**

Applications should be submitted via email to **procurement@rycowb.org** within **24/11/2020** not later than **17:00** (CET). Interested and qualified candidates need to enclose following documents to the application:

* Letter of interest where applicants should:

(a) State specific motivation to be selected;

(b) Describe relevant experience to meet the criteria as set above;

* Curriculum Vitae of the audit company and of each audit team member
* Copies of MoU-s/Certificates/Expressions of interest /Declaration of commitment/Contracts/ /References as per each criterion set above in section 5. Qualifications and Experience.
* Copy of NUIS/ Identification number for TAX Office (VAT number) and related certificates/licenses as per local regulatory body requirements.
* Financial offer including all applicable taxes.

**7. Award Criteria**

The sole award criterion will be the lowest price among technically compliant offers.

**TERMS OF REFERENCE FOR AN**

**EXPENDITURE VERIFICATION**

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

< Annex is completed by RYCO>

|  |  |
| --- | --- |
| **Information about the Grant Contract** | |
| Reference number and date of the Grant Contract |  |
| Grant contract title |  |
| Contracting Party |  |
| Beneficiary |  |
| Partners |  |
| Start date of the implementation period of the Action |  |
| End date of the implementation period of the Action |  |
| Total eligible cost of the Action |  |
| Grant maximum amount |  |
| Total amount received to date by the Beneficiary from Contracting Authority |  |
| Total amount of the payment request |  |
| Contracting Authority |  |

**TERMS OF REFERENCE FOR AN**

**EXPENDITURE VERIFICATION**

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

**1 General Procedures**

* 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 Contracting Authority;

- obtains a copy of the original Grant Contract (signed by the Beneficiary and the Contracting Authority) with its annexes;

- obtains and reviews the Report (which includes a narrative and a financial section) as per Article 2.1 of the General Conditions;

* 1. **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 IV of the Grant Contract;

The Financial Report should cover the eligible costs of the Action as a whole, regardless of which part of it is financed by the Contracting Authority;

The Financial Report should be drawn up in the language of the Grant Contract;

* 1. **Rules for Accounting and Record keeping**

The Auditor examines — when performing the procedures listed in this ToR — whether the Beneficiary has complied with the rules for accounting and record keeping of Article 16 of the General Conditions the Grant Contract including and notably:

The accounts kept by the Beneficiary for the implementation of the Action must be accurate and regular;

The Beneficiary must have a double-entry book-keeping system;

The accounts and expenditure relating to the Action must be easily traceable, identifiable and verifiable.

* 1. **Reconciling the Financial Report to the Beneficiary(ies)’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.).

* 1. **Exchange Rates**

The Auditor verifies that the financial report for the Action is stated in the currency set out in the Special Conditions.

1. **Procedures to verify conformity of Expenditure with the Budget and Analytical Review**
   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 authorization of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Contract.

* 1. **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 Coordinator has:

requested an amendment to the budget and obtained an addendum to the Grant Contract if such an addendum was required (Article 8 of the General Conditions).

informed the Contracting Authority about the amendment if the amendment was within the scope of Article 8.4 of the General Conditions, and an addendum to the Grant Contract was not required.

1. **Procedures to verify selected Expenditure**
   1. **Eligibility of Costs**

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

*Actual costs incurred (Article 15.1)*

The Auditor verifies that the actual expenditure for a selected item was incurred by and pertains to the Beneficiary(ies) or its (their) affiliated entity(ies). The Auditor should take into account the detailed conditions for actual costs incurred as set out in Article 15.1.(i) to (iii). 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.

At final reporting stage the costs incurred during the implementation period but not yet paid can be accepted as actual costs incurred, provided that (1) a liability exists (order, invoice or equivalent) for services rendered or goods supplied during the implementation period of the action, (2) the final costs are known and (3) these costs are listed in the final Financial Report (Annex IV) together with the estimated date of payment (see Article 15.1.a).(ii) of the General Conditions). The Auditor verifies whether these cost items have effectively been paid at the moment of the auditor's verification.

*Cut-off — Implementation period (Article 15.1a)*

The Auditor verifies that the expenditure for a selected item was incurred during the implementation period of the Action. An exception is made for costs relating to final reports including expenditure verification, audit and final evaluation reports of the Action and which may be incurred after the implementation period of the Action.

*Budget (Article 15.1b)*

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

*Necessary (Article 15.1c)*

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

*Records (Article 15.1d)*

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

*Applicable legislation (Article 15.1e)*

The Auditor verifies that expenditure complies with the requirements of tax and social security legislation where this is applicable (for example: employer’s part of taxes, pension premiums and social security charges).

*Justified (Article 15.1f)*

The Auditor verifies that expenditure for a selected item is substantiated by and supporting documents as specified in Article 17 of the General Conditions of the Grant Contract.

*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.

*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.

*Compliance with Procurement Rules*

The Auditor verifies for the expenditure items concerned whether the Beneficiary has complied with the principles for procurement rules as set out in Annex VI (Guidelines for Grantees)

For this purpose the Auditor inspects the underlying documents of the procurement and purchase process.

Where the Auditor finds issues of non-compliance, he/she reports the nature of such issues as well as their financial impact in terms of ineligible expenditure.

Eligible Direct Costs (Article 15.2)

*(1)* The Auditor verifies that expenditure for selected items which are recorded under one of the direct costs headings of the Financial Report, are covered by the direct costs as defined in Article 15.2 by examining the nature of these expenditure items.

*(2)* The Auditor verifies that duties, taxes and charges, including VAT which are recorded under direct costs are **not recoverable** by the beneficiary and/ or its partners (see Article 15.2.g) of the General Conditions). The Auditor obtains evidence that the Beneficiary and or its partners cannot reclaim the duties, taxes or charges, including VAT through an exemption system and/or a refund *a posteriori*.

* 1. **Indirect costs (Article 15.7)**

The Auditor verifies that the indirect costs to cover overhead costs do not exceed the maximum percentage of 7 % of the total final amount of eligible direct costs of the Action.

* 1. **Non-eligible costs (Article 15.5)**

The Auditor verifies that the expenditure for a selected item does not concern an ineligible cost as described in Article 15.5 of the General Conditions.

* 1. **Revenues of the Action**

The Auditor examines whether the revenues which should be attributed to the Action (including grants and funding received from other donors and other revenue generated by the Beneficiary as part of the Action have been allocated to the Action and disclosed in the Financial Report. For this purpose the Auditor inquires with the Beneficiary and examines documentation obtained from the Beneficiary. The Auditor is not expected to examine the completeness of the revenues reported.

* 1. **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 2 (here) of these ToR (‘Listing of specific procedures to be performed’). The evidence to be used for performing the procedures in Annex 2 is all financial and non-financial information which makes it possible to examine the expenditure claimed by the Contractor 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.

**TERMS OF REFERENCE FOR AN**

**EXPENDITURE VERIFICATION**

**Annex 3: Model for Expenditure verification Report**

**1. Background information**

**1.1. Short description of the action subject to verification**

|  |  |
| --- | --- |
| **Contract number and title:** |  |
| Financial Report(s) subject to verification | <DD/MM/YYYY-DD/MM/YYYY>  <DD/MM/YYYY-DD/MM/YYYY> |
| **Beneficiary and Partner/s**[[2]](#footnote-2) | < Identify the Beneficiary and Partners and provide key information about their legal form, nationality and other elements deemed relevant – max 200 words> |
| **Location(s) where the Contract is implemented** |  |
| **Contract execution period** |  |
| **Contract implementation status** | < completed > |
| **General and specific objectives of the Contract** |  |
| **Synthetic description of the activities, outputs and target group** | <max 300 words> |

**1.2. Basic financial information of the Contract (at the time of the verification)**

*Expenditure*

|  |  |  |
| --- | --- | --- |
| **Budget Headings** | **Budgeted Expenditure (amount)** | **Reported Expenditure (amount)** |
| Budget Heading "…" |  |  |
| … |  |  |
| **Total** |  |  |

* + 1. *Contributions*

|  |  |  |
| --- | --- | --- |
| **Source of Contribution** | **Budgeted Contribution (amount)** | **Actual Contribution  (amount)** |
| RYCO |  |  |
| Reporting Entity |  |  |
| Partner Entity 1 |  |  |
| Other Donor 1 |  |  |
| **Total** |  |  |

* + 1. *Revenues*

|  |  |  |
| --- | --- | --- |
| **Revenue Types** | **Budgeted Revenues  (amount)** | **Actual Revenues  (amount)** |
| Type "…" |  |  |
| Type "…" |  |  |
| … |  |  |
| **Total** |  |  |

**2. Procedures performed and factual findings**

We have performed the following specific procedures listed in Annex 2 of the terms of reference for the expenditure verification of the Grant Contract (‘ToR’):

**General Procedures**

**2.1 Terms and Conditions of the Grant Contract**

We have obtained an understanding of the terms and conditions of this Grant Contract.

*<Describe factual findings and specify errors and exceptions.* ***Procedures 1.1–1.5 in Annex 2 “List of specific procedures to be performed”.*** *If there are no factual findings, this should be explicitly stated as follows for each procedure: ‘No factual findings have arisen from this procedure’.>*

**2.2 Financial Report for the Grant Contract**

**2.3 Rules for Accounting and Record Keeping**

**2.4 Exchange Rates**

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

**3.1 Budget of the Grant Contract**

**3.2 Amendments to the Budget of the Grant Contract**

*<Describe factual findings and specify errors and exceptions****. Procedures 2.1–2.2 in Annex 2 “List of specific procedures to be performed”.*** *If there are no factual findings this should be explicitly stated as follows for each procedure: ‘No factual findings have arisen from this procedure’.>*

**3.3 Procedures to verify selected Expenditure**

We have reported further below all the exceptions resulting from the verification procedures specified at point 3.1–3.5 of Annex 2 of the ToR for this expenditure verification insofar as these procedures applied to the selected expenditure item.

*<Specify the expenditure amounts / items for which exceptions (= deviations between facts and criteria) were found, and the nature of the exception — this means which of the specific condition(s) described in point 3.1– 3.5 of Annex 2 of the ToR were not respected. Quantify the amount of verification exceptions found and the potential impact on RYCO’s contribution, should RYCO declare the expenditure item(s) concerned ineligible.>*

**3.4. Eligibility of Costs**

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

*<Describe factual findings and specify errors and exceptions. Procedure 3.1 in Annex 2: eligibility of costs and the eligibility criteria (1) to (10). Example: we found that an expenditure amount of € 6 500 included in budget heading 3.2 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).>*

**3.5 Eligible Direct Costs (Article 15.2)**

**3.6 Indirect Costs (Article 15.6)**

**3.7 Non-eligible costs (Article 15.5)**

**3.8 Revenues of the Action**

<Describe factual findings and specify errors and exceptions. Procedures 3.2–3.5 in Annex 2>

**4. Table of findings**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SUMMARY OF HIGH PRIORITY FACTUAL FINDINGS** | | | | |
| **No** | **Budget line (subline) No. and Description** | **Description of the finding** | **Financial impact on the Final Financial Report/Amount in Eur** | **Comments** |
| **1.** |  | Missing / inadequate documentation |  |  |
| **2.** |  | Incorrect procurement procedure applied |  |  |
| **3.** |  | Expenditure outside contractual period |  |  |
| **4.** |  | Expenditure includes VAT / other taxes |  |  |
| **5.** |  |  |  |  |
|  | **Total Financial findings** |  |  |  |

**5. Expenditure verification expert/team**

List names and expert category levels for this report.>

Name and signature of the Verifier>

Verifier's address: office having responsibility for the expertise>

[for final reports <Date of signature> the date when the **final** report is signed]

**Annex 1: Terms of Reference Expenditure Verification**

**Annex 2: Financial report/s provided by the beneficiary**

1. [↑](#footnote-ref-1)
2. The term "Partner /s" identifies the entities, beyond the reporting one, which incurred part of the reported expenditure [↑](#footnote-ref-2)