Terms of Reference

***for***

**Fruit Production Sector Development Project in Armenia (FRUITENIA)**

 **External Audit Services**

Table of contents

[1. Introduction 3](#_Toc50564512)

[2. Objectives of the audit 3](#_Toc50564513)

[3. Background of the Project 3](#_Toc50564514)

[4. Scope of the Audit 4](#_Toc50564515)

[5. Work plan 4](#_Toc50564516)

[6. Required Expertise 4](#_Toc50564517)

[7. Reporting 5](#_Toc50564518)

[7.1 Auditors eligible to deliver the audit report of the financial report 5](#_Toc50564519)

[7.2 General 6](#_Toc50564520)

[7.3 Submission of the Audit Report 6](#_Toc50564521)

[7.4 Procedures to be carried out for the Audit Report 6](#_Toc50564522)

[7.5 General procedures to be performed and specific guidance 7](#_Toc50564523)

[7.6 Verification evidence 8](#_Toc50564524)

[7.6.1 Procedures to verify the expenditure 8](#_Toc50564525)

[7.6.2 Procedures to verify revenues 12](#_Toc50564526)

[8. Mandate 12](#_Toc50564527)

[9. Timing and Schedule 12](#_Toc50564528)

[10. Selection of the auditor 13](#_Toc50564529)

[11. How to Apply 13](#_Toc50564530)

[Annex I: Template for the Engagement Letter for the Audit Report 14](#_Toc50564531)

[Annex II: Template for the Audit Report of Factual Findings 18](#_Toc50564532)

# 1. Introduction

**“Fruit Production Sector Development Project in Armenia (FRUITENIA)”** is a project funded by the Austrian Development Cooperation (ADC) and implemented by ICARE Foundation. It has been conceived, guided and financed by the Austrian Development Agency (ADA). These Terms of Reference (ToR) have been compiled to guide the external auditors in the preparation of their Audit Report as part of the Annual Project Financial Reports.

# 2. Objectives of the audit

Expenditure Verification is the work performed by the Auditor within the scope of these Terms of References. Even if sometimes referred to as an Audit, the approach of these external services regarding the expenditure verification goes beyond the scope of a mere Audit on Financial Statements. The objectives of this external audit services are to:

* verify sound financial management and accuracy of book keeping on the basis of original vouchers,
* stamping of original vouchers,
* verity plausibility of expense items,
* verify compliance of expenses with budget items,
* verify that the financial statements provide a true picture of the project’s finances.

# 3. Background of the Project

It is necessary to carry out an audit of the project implementing organization book keeping with reference to the financial statement and allocated budget for the project.

The intended long term impact of FRUITENIA project is: Increased competitiveness of the fruit production sector among the beneficiary farmers. The project will establish an environmentally friendly and climate smart demonstration orchard of intensive fruit production, which will be used for educational purposes. Students, teaching staff, practicing professionals, farmer groups, and other fruit production sector stakeholders will have an open access to the orchard for visits and hands-on trainings. The project will develop and launch a fruit production related e-learning open-access platform in Armenian language which will be accessible to all fruit production stakeholders including farmers, students, ANAU and TVET faculty, experts, etc. Finally, the project will organize a Youth Camp to raise awareness about the importance and opportunities of fruit production in Armenia among youth.

The project duration is 4 years, starting on December 2019; and ending on November 2023. The Grant Agreement is signed on behalf of Austrian Development Agency (ADA) by Gerhard Schaumberger, Head of Office for the South Caucasus; and on behalf of International Center for Agribusiness Research and Education Foundation (ICARE) by Artur Grigoryan, Director.

# 4. Scope of the Audit

The audit should be conducted on annual basis for the entire project period (from 01.12.2019 to 30.11.2023), covering the periods of:

* 1 December 2019 to 30 November 2020;
* 1 December 2020 to 30 November 2021;
* 1 December 2021 to 30 November 2022, and
* the final audit covering the period from 1 December 2022 to 30 November 2023.

The project total budget for 4 years is 761,733.33 EUR.

In performing the audit the auditors shall:

* check that the expenses are recorded in the Foundation’s accounts and are backed by originals of supporting evidence,
* check if financial transfers (bank, cash) are understandable and are in line with reported expenditures,
* audit proper bookkeeping,
* audit accounts on the basis of original vouchers,
* invalidate the original vouchers,
* audit the plausibility of expenditures, assignment of expenditures to the respective budget items,
* audit the overall financial management,
* conduct verification of the compliance with the respective social and labour law as well as of proper application of the applicable procurement law,
* examine of plausibility of the expenses and allocation of the same to the items of the project budget, examination of the total financial management, examination of the compliance with the applicable provisions of labour law and social security law and examination of the compliance with the applicable procurement provisions,

additionally,

* It must be evident from the bookkeeping records and from the audit of the accounts that the expenditures are covered by the revenues and thus be verified that there is no duplicate financing by external funding bodies,
* the contract, terms and conditions have been complied with,
* applicable tax laws and regulations have been complied with,
* an adequate, effective Internal Control System exists,
* assets and equipment have been used for the project purposes,
* applicable visibility regulations have been adhered to,
* recommendations from previous periods have been implemented (valid for 2nd, 3rd, and 4th audits).

# 5. Work plan

The audit shall be carried out in the ICARE’s office in Yerevan and comprise the investigation of vouchers, accounts, invoices and bank statements. The first audit must be carried out from December 01, 2020 to January 25, 2021. The 2nd, 3rd, and 4th audits must be carried out in the same months of each respective year of the project period. The performer of these external audit services must conduct all 4 audits within this ToR. All the audit reports must be written parallel both in English and in Armenian and hard copies to be sent to ICARE Foundation, to the Attn. of Mr. Artur Grigoryan, not later than January 31 of each respective year of the project period.

# 6. Required Expertise

The minimum requirement for the Auditor are as follows:

* + The auditor needs to be an audit company registered in Armenia or Austria and must comply the ISAs (International Standards on Auditing) and member of IFAC (International Federation of Accountants)
	+ The auditor must have at least 3 years of experience in auditing similar projects financed by international donors.
	+ The auditor must be completely impartial and independent from all aspects of management or financial interests in the entity being audited.
	+ The auditor must not have been involved in the operation’s accounting or have any financial or close business relationships with any senior participant in the management of the entity.
	+ The auditor must not personally be connected in any way with the senior management of the organisation being audited. The auditor is required to disclose any relationship that might possibly compromise his/her independence.

# 7. Reporting

The Audit Report is an independent report of factual findings produced by an external auditor. The purpose of the Audit Report is that the auditor provides the ADA with a reasonable assurance that:

* All costs as well as all receipts declared in the Financial Report are justified by the relevant supporting documents;
* All costs are incurred in the eligibility period in accordance with the project’s Grant Agreement;
* The beneficiary has complied with the rules for accounting and record keeping in accordance with Grant Agreement;
* Sub-contracting and procurement costs comply with the related provisions set by the Grant Agreement.

Notwithstanding the procedures to be carried out, the beneficiary remains at all times responsible and accountable for the accuracy of the Financial Report. A beneficiary that has been found guilty of making false declarations or has been found to have seriously failed to meet its obligations under the Grant Agreement shall be liable to reimbursement of monies according of the Grant Agreement.

The auditor has a contractual relationship solely with the ordering party (the beneficiary). The auditor does not have a contractual relationship with the ADA and the ADA will not intervene in any dispute between the auditor and the beneficiary.

The auditor shall ensure that the work has been undertaken in accordance with the International Standard on Related Services (“ISRS”) 4400.

## 7.1 Auditors eligible to deliver the audit report of the financial report

The beneficiary is free to choose a qualified external auditor provided that the following cumulative requirements are met:

* The external auditor must be **independent** from the beneficiary;
* The external auditor must be **qualified** to carry out audits of accounting documents in accordance with national legislation and must be listed in the national register of auditors;
* The external auditor has to be chosen in accordance with the local office of the Austrian Development Agency (ADA) whenever a local office is in place.

## 7.2 General

In order to avoid delays in the submission of the Financial Report, the beneficiary should select and contract the auditor well in advance. An engagement letter (see Annex I) should be signed by both the beneficiary and the auditor.

As a first step it is essential that the auditor fully understands the requirements of the certification and is provided with a complete set of the documents necessary for the certification (particularly the Grant Agreement signed between the coordinating institution and the ADA, and the present ToR).

## 7.3 Submission of the Audit Report

The beneficiary is required to submit to the ADA an Audit Report of Factual Findings (see annex II) produced by an auditor. The Audit Report has to be available two months after the end of the respective reporting period.

The Audit Report is composed of two separate documents:

* The auditor's report to be issued on the auditor's letterhead and dated, stamped and signed by the auditor.
* The detailed cost breakdown (i.e. in the Excel file of the Financial Report), com- piled, dated and signed the beneficiary and countersigned by the auditor. The Audit Report must be written in English.

## 7.4 Procedures to be carried out for the Audit Report

The ADA has designed these procedures in order to obtain standardized and comparable reports from all auditors, who are expected to carry out the procedures without adaptation for the particular circumstances of the beneficiary. In particular all procedures have to be carried out in full and unaltered.

It should be noted that the responsible authorizing **“Fruit Production Sector Development Project in Armenia (FRUITENIA)”** Project Manager - based on the Audit Report of Factual Findings - will be in charge of taking the relevant decisions on the eligibility of costs declared in the Financial Report.

## 7.5 General procedures to be performed and specific guidance

1. Terms and Conditions of the Grant Agreement

The auditor obtains an understanding of the terms and conditions of the Grant Agreement by reviewing:

* + A copy of the Grant Agreement signed between the coordinating institution and the ADA, its annexes and other relevant information. Particular attention should be paid to the project budget;
	+ The Financial Report
	+ The present ToR.

The auditor should also verify that the budget in the Financial Report corresponds to the budget of the Grant Agreement and whether there have been amendments to the Grant Agreement. Particular attention should be paid to the amendment having an impact on the budget and/or eligibility period.

1. Financial Report for the Grant Agreement
	* The Financial Report must conform to the Budget of the Grant Agreement.
	* The Financial Report has to be structured according to the budget categories outlined in the budget sheet of the application form, namely staff costs, travel and subsistence costs, equipment and material costs, dissemination costs and other costs.
	* The Financial Report has to indicate the exchange rate applied.
	* The Financial Report and the Audit Report have to be issued in English.
	* In case of several partners in the eligible country (ies) only one Audit Report that includes expenses of all partner institutions in these countries has to be submitted.
	* The Audit report with original signatures has to be submitted in hardcopy to the “Fruit Production Sector Development Project in Armenia (FRUITENIA)” office, the report has to be bound and pages need to be numbered.
2. Rules for Accounting and Record Keeping
	* The auditor examines whether the beneficiary has complied with the rules for accounting and record keeping in accordance with the Grant Agreement;
	* The accounts kept by the beneficiary for the implementation of the project must be accurate, up-to-date and exhaustive (including all expenditure and revenues – if any);
	* The auditor examines whether the beneficiary has a double-entry book-keeping system;
	* The expenditure and revenue – if any – relating to the project must be easily identifiable and verifiable.
	* It must be evident from the bookkeeping records and from the audit report that there is no double financing with external funding bodies.

## 7.6 Verification evidence

The beneficiary will allow 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 beneficiary will allow the auditor access to all documents concerning the financial management of the project. It should also be noted further that it is the beneficiary’s responsibility to obtain the accounting documents necessary to enable the auditor to verify costs incurred by the beneficiary. Supporting documentation must be available in the form of original documents for the beneficiary rather than photocopies or facsimiles.

* If the auditor encounters any discrepancies/exceptions in carrying out the performance of the procedures detailed in these ToR, e.g. missing supporting documentation, the general rule is for the cost item to be corrected in the Financial Report to be submitted to the ADA, i.e. the applicable cost is excluded from the Financial Report.
* There will be many instances where a discrepancy/exception is not easily rectified by excluding it from the Financial Report, for example non-compliant3 sub- contracting costs or costs incurred during the eligibility period but not yet paid at the date of submission of the Financial Report or incurred after the end of eligibility (e.g. costs of Audit Report). In such instances, the auditor should report.
* Where the auditor is in any doubt as to how to deal with a discrepancy/exception, it is recommended that it is reported in the Audit Report and with a sufficient amount of detail that would allow the ADA to be able to make a decision on the issue.

### 7.6.1 Procedures to verify the expenditure

The following substantive procedures are required to be performed by the auditor to verify expenditure.

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.

The auditor ensures that the overall ECR is at least 70%.

1. All costs are justified by the relevant supporting documents

The auditor verifies, for each expenditure item, that the criteria set out below have been met:

* + Costs actually incurred:

The auditor verifies that the items declared in the Financial Report were actually incurred by and pertain to the beneficiary. For this purpose the auditor examines supporting documentation (e.g. invoices, contracts) and proof of payment. The auditor verifies that the monetary value of the expenditure items agrees with underlying documents (e.g. invoices, payroll documents).

* + The auditor verifies that the items were incurred during the specific project period or the eligibility in accordance with Project Financial Reporting Obligations of the Grant Agreement. Invoices related to the eligible project period but not yet paid at the date of submission of the Financial Report as well as those costs incurred after the end of the eligibility period should be detailed in the Audit Report.
* Exchange Rates General requirements of the Grant Agreement:

The auditor verifies that expenses incurred in a currency other than Euro have been converted in accordance with the requirements of the Grant Agreement.

* + Compliance with sub-contracting and procurement rules according:

Where applicable, the auditor examines which procurement rules (as pro- vided for the Grant Agreement) apply for any given expenditure. The auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents for the procurement and purchase process, e.g. tenders/offers. Where the auditor finds instances of non-compliance with procurement rules, the nature of the case and the details of the costs should be included in the Audit Report.

* + Further regulations for other institutions: institutions of a legal status other than higher education institutions such as NGOs, private companies, etc. are not eligible partners. If necessary and adequately presented, non-university institutions can be conceptualized as subcontractors. In this case their expenses have to be included in the budget category “other costs” and not as expenses of a main partner (an own entity). Their expenses have to be budgeted to an appropriate and reasonable extent in the expenses of the main institutional partner in the respective country.
1. Direct costs

In addition to carrying out the procedures listed above in point (1), the following procedures need to be performed by the auditor for the specific budget categories listed below.

1. Staff costs

The auditor verifies that the relevant supporting documents for staff costs are available and that costs claimed in the Financial Report are accurate. Specifically, the auditor verifies:

* The existence of an employment contract (permanent or temporary) in accordance with relevant national legislation;
* That staff costs claimed in the Financial Report are supported by payslips and bank transfers orders;
* The function of the staff in the project, the working days and the daily rate per staff member;
* That costs attributable to the project are calculated accurately i.e. the daily rate is correct.

If the working days or costs of staff cannot be identified or justified by the beneficiary, the related costs should not be included in the Financial Report.

1. Other direct costs

For the purpose of these ToR, the heading ‘Other direct costs’ refers generically to all direct cost categories within the approved budget other than staff costs, namely travel and subsistence costs, equipment and material costs, dissemination costs, other costs.

The funds granted have to be used in an efficient, economical and appropriated way for the purposes specified in the application.

**Which documents should the beneficiary prepare for the auditor?**

For most transactions in these cost categories, it should be sufficient proof of expenditure if the beneficiary has kept original third-party in- voices (or certified copies).

For air travel costs, it is noted further that invoices, flight tickets and boarding passes may represent suitable documentation where both the costs of the trip and passengers’ names/ dates/ start point and destination are evident.

Expenses shall only be provided upon the condition that all possible fare reductions, rebates, discounts, etc. were claimed and the least expensive route was chosen in the case of air travel.

Travel and subsistence costs will be calculated based on the Grant Agreement Contract of “FRUIT PRODUCTION SECTOR DEVELOPMENT PROJECT IN ARMENIA (FRUITENIA).

In either case, proof of attendance and overnight accommodation will be required to substantiate the costs declared.

Other eligible budget categories are equipment and material, dissemination and other costs.

Inventory of goods intended for use by the beneficiary:

The beneficiary shall keep and continuously update a list of all those goods procured with the grant funds or provided by the beneficiary from his own stock that are explicitly or based on their nature intended for use by the beneficiary or project partners and whose net procurement value individually exceeds EUR 400.00 or another, lower, inventory amount provided for by local statutory regulations. This list shall be sent to ADA at the latest with the Project reports and the final report.

It is recommended that the beneficiary and auditor refer to the Grant Agreement.

A detailed cost breakdown has to be part of the Audit Report. The cost breakdown might be more detailed than the budget that was submitted with the application.

1. Overhead Costs
2. Contributions in kind

Contributions in kind are not subject to verification and do not have to be mentioned in the Financial Report.

### 7.6.2 Procedures to verify revenues

The auditor examines whether revenues which should be attributed to the project (including revenue generated by the project e.g. conference fees) have been allocated to the project and disclosed in the Financial Report. For this purpose the auditor should consult the beneficiary and examine documentation obtained from the beneficiary.

# 8. Mandate

The Foundation will provide the Auditor with full and complete access at any time to all relevant records and documents (including books of account, legal agreements, minutes of meetings, correspondence, bank records, invoices and contracts, etc.) and employees involved in the project implementation process. The auditor has a right of access to banks, consultants, contractors and other persons or firms engaged by the project management.

# 9. Timing and Schedule

|  |  |  |
| --- | --- | --- |
| **Activity schedule for the 1st Audit****\*same time periods apply for the audit periods of the following project years.**  | **Until** | **To / from** |
| Letter/Expression of interest/offer | 13 November 2020 | ICARE / Auditor |
| Signed contract between auditor and ICARE | November 20 2020 |  |
| Auditor will receive the complete financial report (including list of expenses to be audited) as of 20 December 2020 | December 10, 2020 | Auditor / ICARE |
| Conducting Audit | December 1, 2020 – January 19, 2021 |  |
| Sending draft audit report to Artur Grigoryan, ICARE Director | 20 January,2021 | ICARE / Auditor |
| Feedback from ICARE | 25 January,2021 | Auditor / ICARE  |
| Finalization of and transmission of the final audit report  | 31 January 2021 | ICARE / Auditor |

# 10. Selection of the auditor

The deadline for the submission of bids is **13 November, 2020**. All companies who submitted bids will be contacted, with requests for additional information and details if necessary.
The selection criteria for among candidates will be related experience and price offer.

# 11. How to Apply

Submission letter should include:

* Description of planned audit implementation
* Schedule of activities
* Auditor’ fees
* Auditor’s CV and/or company profile

The bidding submission package together with the List of audited projects/companies/clients should be sent to the following address: 74 Teryan, Yeevan, Armenia for attention of Director Arthur Grigoryan

Contract:

Before carrying out the audit, a contract (based on this ToR) is to be signed between XXX and the respective auditing company.

The audit contract shall be drafted by the auditor and shall:

* Be written in English
* Include these ToR as an annex and integral part of the contract
* Contain a confirmation that the auditor has read ADA’s the General terms and conditions to the Austrian Development Agency´s grant Agreement for Support in the Field of Development Cooperation, especially chapter 4.6 of the General Conditions.
* Contain a time schedule for the auditing process

# Annex I: Template for the Engagement Letter for the Audit Report

When drafting the engagement letter, the auditor and the beneficiary should use the text below. The auditor and the beneficiary are free to add further arrangements which express the particularities of the project. These provisions may not in any event be, contradictory to these ToR.

**Engagement Letter for the Audit Report**

*To be printed on letterhead paper of the auditor*

The following are the conditions on which <***name of the beneficiary****>* ‘the beneficiary’ agrees to engage <***name of the audit firm****>* ‘the auditor’ to provide an independent Audit Report prepared by the beneficiary in connection with a “FRUIT PRODUCTION SECTOR DEVELOPMENT PROJECT IN ARMENIA (FRUITENIA) financed Grant Agreement concerning the project <*title of the project and number of the grant contract>* (the ‘Grant Agreement). Where in this letter the ‘ADA’ is mentioned this refers to the ADA in its capacity as signatory of the Grant Contract with the beneficiary or with project partners of the beneficiary (the signing, coordination organization), providing the grant funding. The ADA is not a party to this agreement.

1. Responsibilities of the Parties to the Engagement

‘**The beneficiary’** refers to the organization that is receiving part of the total grant funding and that has either signed the Grant Agreement with the ADA or is a project partner of the signing (coordinating) organization.

* + The beneficiary is responsible for providing the ADA with a Financial Report for the project financed by the Grant Agreement which complies with the terms and conditions of the Grant Agreement 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, in support of the Financial Report. Notwithstanding the procedures to be carried out, the beneficiary remains at all times responsible and liable for the accuracy 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 its partners, providing full and free access to the beneficiary’s staff and its accounting and bookkeeping system and underlying accounts and records.

‘**The auditor**’ refers to the auditor responsible for performing the agreed-upon procedures as specified in this letter, and for submitting an independent Audit Report to the beneficiary.

The auditor must be independent from the beneficiary. By agreeing to this engagement the auditor confirms that at least the following conditions have been met:

* The auditor is qualified to carry out audits of accounting documents in accordance with national legislation.
* The procedures to be performed are specified by the ADA and the auditor is not responsible for the suitability and appropriateness of these procedures.
* The external auditor has to be chosen in accordance with the local office of the Austrian Development Agency (ADA) whenever a local office is in place.
1. Subject of the engagement

The subject of this engagement is to produce an Audit Report of Factual Findings in connection with the Grant Contract <project number> for the period covering <dd Month yyyy to dd Month yyyy> and the project entitled <title of the Action>, the 'Project'.

1. Reason for the engagement

The beneficiary is required to submit to the ADA an Audit Report in the form of an independent certification produced by an auditor in support of the payment requested by the beneficiary in accordance with Section Schedule ./B Guidelines for the Budget and Financial Report of the Grant Agreement. The ADA’s responsible authorizing Programme Officer requires this report as a condition for the consecutive annual payments and the final payment requested by the beneficiary.

1. Engagement type and objective

This constitutes an engagement to perform specific agreed-upon procedures regarding an independent verification of costs claimed under the Grant Agreement. The objective of this expenditure verification is for the auditor to carry out the specific procedures listed in III.3. in this letter and to submit to the beneficiary an Audit 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.

As this engagement is not an assurance engagement, the auditor does not provide an audit opinion and expresses no assurance. The ADA assesses for itself the factual findings reported by the auditor and draws its own conclusions from these factual findings on the Financial Report and the payment request of the beneficiary relating thereto.

The auditor shall include in his/her report the amount of the fees and travel and subsistence reimbursement(s) received for providing the Audit Report and shall certify that no conflict of interest exists between him/her and the beneficiary in establishing the report.

1. Standards and ethics

The auditor shall undertake this engagement in accordance with:

* + The International Standard on Related Services (‘ISRS’) 4400 *Engagements to per- form 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 ADA requires that the auditor is independent from the beneficiary and complies with the independence requirements of the *Code of Ethics for Professional Accountants*.
1. Procedures, evidence and documentation

The auditor plans the work so that effective expenditure verification can be performed. The auditor performs the procedures listed in III.3. and applies these related guidelines. The evidence to be used for performing the procedures in II.3. is all 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 Audit Report. The auditor documents matters which are important in providing evidence to support the Audit Report, and evidence that the work was carried out in accordance with ISRS 4400 and the specific guidance provided by the ADA.

1. Reporting

The report on this expenditure verification should describe the purpose, the agreed-upon procedures, the factual findings and a detailed cost breakdown as well as a summary of expenses according to the budget categories in sufficient detail to enable the beneficiary and the ADA to understand the nature and extent of the procedures performed by the auditor.

The Auditor's Report should offer an opinion on the following areas:

* + Is the Financial Project Report in accordance with bookkeeping?
	+ Do the received funds match the bookkeeping?
	+ Does the bookkeeping match the vouchers?
	+ Are there proper vouchers for all transactions?
	+ Does the bookkeeping match the Official Bank Account Statements and Cash Book?
	+ Does the internal control system assure sound financial management and plausibility and transparency of the expenses?

The Auditor shall produce an Expenditure Verification Report which contains at least:

* Title
* Addressee
* Brief description of the project and partner(s)
* Period covered by the report
* Total amount of budgeted and actual incomes
* Complete list of project funds transferred, including donors’ names, dates and exchange

 rates

* Total amount of actual expenditures verified
* Expenditure Coverage Ratio
* Description of the procedures performed
* Factual findings
* Recommendations, if applicable
* Follow up of previous recommendations, if applicable
* Other relevant matters
* Date of the report
* Auditor’s address and signature
* The Report shall also comprise the following annexes:
* Financial Statement
* Bank account statements
* List of payable invoices, if any
* In case ineligible costs are detected, a list of respective vouchers
* Asset list
* If expenses contain Value Added Tax (VAT), the Auditor shall certify that Grant Recipient

 is not exempt from VAT and cannot reclaim it either

The use of the reporting template (Annex II - Template for the Audit Report (Report on Factual Findings)) is mandatory. This report must be provided by the auditor to <name of the beneficiary> by <date> at the latest.

1. Other Terms

[*The beneficiary and the auditor may use this section to agree other specific terms such as auditor’s fees, out of pocket expenses, liability, applicable law, etc.*]

Date:

Signature beneficiary Signature auditor

# Annex II: Template for the Audit Report of Factual Findings

*To be printed on letterhead paper of the auditor*

**Audit Report of Factual Findings on costs claimed under the Grant Contract financed under**

**the “FRUIT PRODUCTION SECTOR DEVELOPMENT PROJECT IN ARMENIA (FRUITENIA)**

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

< Beneficiary’s name>

<Address>

<dd Month yyyy>

In accordance with the terms of our engagement letter dated <dd Month yyyy> with <name of the beneficiary> hereinafter referred to as “the beneficiary”, we hereby provide our Audit Report of Factual Findings (“the Report”), as specified below.

**Objective**

We *[legal name of the audit firm]*, established in *[full address/city/province/country]* represented for signature of this Report by [*[name and function of an authorized representative],* have performed agreed-upon procedures regarding the costs declared in the Financial Re- port of [*name of beneficiary*], the beneficiary, to which this Report is attached, and which is to be presented to the ADA, hereinafter referred to as “the Agency”, under Grant Agreement *[Project Title and Project Number]* for the following period *[insert period covered by the Financial Report].* This engagement involved performing the procedures listed in the “Terms of Reference “FRUIT PRODUCTION SECTOR DEVELOPMENT PROJECT IN ARMENIA (FRUITENIA) Audit Report”, the results of which the Agency uses to draw conclusions as to the eligibility of the costs claimed.

**Standards and ethics**

Our engagement was undertaken in accordance with:

* The specific guidance provided by the Agency;
* 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 Agency 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 “Terms of Reference “FRUIT PRODUCTION SECTOR DEVELOPMENT PROJECT IN ARMENIA (FRUITENIA) Audit Report”.

These procedures have been determined solely by the Agency and were performed solely to assist the Agency in evaluating whether the expenditure claimed by the beneficiary in the accompanying Financial Report has been claimed in accordance with the Grant Agreement. The auditor is not responsible for the suitability and appropriateness of these procedures.

**Sources of information**

The Report sets out information provided to us by the management of the beneficiary in response to specific questions or as obtained and extracted from the beneficiary’s information and accounting systems.

**Factual findings**

The above-mentioned Financial Report was examined and all procedures specified in “Terms of Reference “FRUIT PRODUCTION SECTOR DEVELOPMENT PROJECT IN ARMENIA (FRUITENIA) Audit Report” were carried out.

The total expenditure which is the subject of this expenditure verification amounts to EUR<xxxxxx>. The currency exchange rate that was used is <xxxxxx>.

Exceptions [delete if not applicable, i.e. no exceptions have been identified]

**i) Cases of non-compliance**

1. Staff costs: please report the nature of the non-compliance and details of the costs affected
2. Exchange rate: please indicate the exchange rate applied and report any discrepancies between the amount of expenditure incurred in a currency other than Euro and the related value declared in the Financial Report
3. Eligibility period: please report details of invoices related to the eligibility period but not yet paid at the date of submission of the Financial Report as well as those costs incurred after the end of the eligibility period
4. Sub-contracting/ procurement: please report the nature of the non-compliance and details of the costs affected
5. Other direct costs: please report the nature of the non-compliance and details of the costs affected

*For all instances, please provide sufficient details on the issues concerned, e.g. amount of transaction, date of transaction, invoice or reference number, name of supplier.*

**ii) Additional information for the consideration of the Agency**

*This section shall be used by the auditor to signal any issue which does not fall into the categories listed in Section i) above.*

Use of this Report

This Report is intended solely for the purpose set forth in the above objective.

This Report is prepared solely for the confidential use of the beneficiary and the Agency and solely for the purpose of submission to the Agency in connection with the requirements as set out in Article 4.1.4 of the Grant Agreement. This Report may not be relied upon by the beneficiary or by the Agency for any other purpose, nor may it be distributed to any other parties. The Agency may only disclose this Report to others who have regulatory rights of access to it, in particular the Austrian Development Agency.

This Report relates only to the Financial Report specified above and does not extend to any other financial statements of the beneficiary.

No conflict of interest exists between the auditor and the beneficiary in establishing this Report.

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

[legal name of the audit firm]

[name and function of an authorized representative]

<dd Month yyyy>, <Signature of the auditor>

NB: please attach the following document

The cost breakdown relating to the Project (as per the model annexed to the Grant Agreement, i.e. the Excel Financial Report), compiled, dated and signed the beneficiary and counter- signed by the auditor.