

Appendix F

TERMS OF REFERENCE FOR AN EXPENDITURE VERIFICATION OF A GRANT received from the RHP FUND in relation to the REGIONAL HOUSING PROGRAMME

HOW TO USE THIS TERMS OF REFERENCE (ToR) TEMPLATE: All text highlighted in yellow in this ToR template and in Annexes 1 and 2 thereto is for instruction only and beneficiaries of the Grant should remove and complete it as applicable. The parts of the ToR presented in <.....> (e.g. <name of the Partner Country Ministry/PIU/Lead Institution>), must be completed by the Partner Country Ministry/PIU/Lead Institution.

The following are the Terms of Reference ("ToR") under which <name of the Ministry/PIU/Lead Institution> agrees to engage <name of the audit firm> (the "Auditor") to perform an expenditure verification and to report in connection with a Grant from the RHP Fund for the Sub-Project under the Partner Country's Country Housing Project called <name of the Partner Country's Housing Project and Project number> (the "Sub-Project") documented by way of a Grant Agreement entered into between the Partner Country and the Council of Europe Development Bank ("CEB") dated <date of the Grant Agreement> (the "Grant Agreement") entered into pursuant to a Framework Agreement entered into between the Partner Country and the CEB dated <date of the Framework Agreement> (the "Framework Agreement").

In these ToR the defined terms and expressions shall bear the same meaning as given to them in the Framework Agreement, unless the context requires otherwise.

1.1. Responsibilities of the Parties to the Engagement

The term "Beneficiary(ies)" refers collectively to all Beneficiaries, including the PIU, the Lead Institution, the municipalities and NGOs, to the extent the municipalities and NGOs are implementing the Sub-Project. When there is only one Beneficiary of the Sub-Project, the terms Beneficiary(ies), the PIU and the Lead Institution should be understood as referring to the only Beneficiary of the Sub-Project. Where applicable the term Beneficiary(ies) includes its affiliated entity(ies).

- The PIU/Lead Institution is responsible for providing Progress Report (including narrative and financial part) on the progress in implementing the Sub-Project financed by the Grant as specified in the Grant Agreement. The Grant Agreement sets out the minimum information required by the CEB with respect to the Progress Reports (as further described under Appendix D of the Grant Agreement). These Progress Reports reconcile to the Beneficiary(ies)'s accounting and bookkeeping system and to the underlying accounts and records. The Beneficiary(ies) is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Progress Reports.
- The PIU/Lead Institution accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Beneficiary(ies), and as the case may be its affiliated entity(ies), providing full and free access to its (their) staff and its (their) accounting and bookkeeping system and underlying accounts and records.
- The Auditor is responsible for performing the agreed-upon procedures as specified in these ToR. 'Auditor' refers to the audit firm contracted for performing this engagement and for submitting a report of factual findings to the PIU/Lead Institution. 'Auditor' can refer to the person or persons conducting the verification, usually the engagement partner or other

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engagement the Auditor does not provide an audit opinion and expresses no assurance. CEB 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 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 behaviour and technical standards. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the CEB requires that the Auditor is independent from the Beneficiary(ies) and complies with the independence requirements of the IFAC 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 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 PIU/Lead Institution in the Progress 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 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 to enable the PIU/Lead Institution and CEB 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 template for providing a Report on an expenditure verification of a Grant received from the RHP Fund as set out in Annex 3 of these ToR is compulsory. This report should be provided by the Auditor to <name of the PIU/Lead Institution> within <xx; number of working days to be indicated by the PIU/Lead Institution> 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 PIU/Lead Institution may want to agree a fixed fee for the engagement or otherwise. The PIU/Lead Institution and the Auditor may want to agree specific terms if the Auditor needs to extend the verification coverage from 80 % to 90 %]

[The PIU/Lead Institution and the Auditor can use this section to agree any other specific terms]

Annex 1	Information about the Sub-Project
Annex 2A	Listing of specific procedures to be performed
Annex 2B	Guidelines for specific procedures to be performed

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Annex 1 Information about the Sub-Project

[Annex to be completed by the PIU/Lead Institution]

Information about the Sub-Project	
Project number and date of the Grant Agreement	<PIU/Lead Institution's reference for the Grant Agreement>
Grant Agreement title	
Country	
PIU/Lead Institution	<full name and address of the PIU/Lead Institution as per the Grant Agreement>
Beneficiary(ies) and affiliated entity(ies)	<full name and address of the Beneficiary(ies) and related affiliated entity(ies) as per the Grant Agreement>
Start date of the Sub-Project	
End date of the Sub-Project	
Total [accepted/eligible] cost of the Sub-Project	<total amount(s) in Art. 1.1 of Grant Agreement>
Total amount received to date by the PIU/Lead Institution from CEB	<total amount received as per dd.mm.yyyy>
Total amount of payment requests	<total amount requested for payment>
CEB	<name, position/title, phone and E-mail of the contact person in the CEB>
Auditor	<name and address of the audit firm and names/positions of the auditors>

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Reports shall be submitted in the currency set out in the Grant Agreement, and may be drawn from financial statements denominated in other currencies, on the basis of the Beneficiary(ies)'s applicable legislation and applicable accounting standards.

Reporting on expenditure shall be expressed in EUR or, should payments be made in any other currency, by converting the corresponding amounts into EUR at the exchange rate of the date of payment to the contractor in the non-EUR currency.

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

2.1. Budget of the Sub-Project

The Auditor carries out an analytical review of the budget lines in the Progress Reports and in the Sub-Project budget.

The Auditor verifies that the budget in Progress Reports corresponds to the budget of the Sub-Project (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Sub-Project.

2.2. Amendments to the Budget of the Sub-Project

The Auditor verifies whether there have been amendments to the budget of the Sub-Project, as defined in Appendix B-1 of the Grant Agreement. Where this is the case the Auditor verifies that the PIU/Lead Institution has:

- requested an amendment to the budget from the CEB
- obtained an amendment to the budget from the CEB.

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) Actual costs incurred

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. 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.

The costs incurred prior to the disbursement of the last Grant Tranche 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 prior to the disbursement of the last Grant Tranche of the Sub-Project, (2) the final costs are known and (3) these costs are listed in the Progress Report together with the expected date of payment (see Article 5.1 of the Grant Agreement). The Auditor verifies whether these cost items have effectively been paid or a commitment has been made at the moment of the Auditor's verification.

(2) Cut-off—period

The Auditor verifies that the expenditure for a selected item was incurred prior to the disbursement of the last Grant Tranche of the Sub-Project.

The Auditor obtains evidence that the Beneficiary(ies) and or its affiliated entities cannot reclaim the duties, taxes or charges, including VAT through an exemption system and/or a refund *a posteriori*.

3.3. Contingency Reserve

The Auditor verifies that the provision for contingency reserve does not exceed 10% of the direct eligible costs of the Sub-Project and that the PIU/Lead Institution has agreed with the CEB for the use of this contingency reserve.

3.4. In kind contributions

Contributions in kind can be accepted if presented in the Progress Report. The Auditor verifies whether such co-financing is applicable and whether it is properly stated in Progress Reports.

3.5. Non-eligible costs

The Auditor verifies that the expenditure for a selected item does not concern a non-eligible cost as described in Annex 2C of these ToR.

3.6. Revenues of the Sub-Project

The Auditor examines whether the revenues (if any) which should be attributed to the Sub-Project have been allocated to the RHP Fund and disclosed in the Progress Report. For this purpose the Auditor inquires with the Beneficiary(ies) and examines documentation obtained from the Beneficiary(ies). The Auditor is not expected to examine the completeness of the revenues reported.

2. OBTAINING AN UNDERSTANDING OF THE TERMS AND CONDITIONS OF THE FRAMEWORK AGREEMENT AND THE GRANT AGREEMENT

The Auditor should obtain an understanding of the terms and conditions of (i) the Framework Agreement and (ii) the Grant Agreement. He/she should pay particular attention to Appendix B (Sub-Project description) and Appendix D (Progress Report template). Moreover, the Auditor should obtain an understanding of General Conditions on the Regional Housing Programme (RHP) Fund (which are appended to the Framework Agreement in Appendix 2) which provide rules for procurement. Failure to comply with these rules makes expenditure ineligible for financing. These procurement rules apply to all Grant Agreements. The Auditor ensures with the Beneficiary(ies) that the applicable nationality and origin rules are clearly identified and understood.

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

3. SELECTING EXPENDITURE FOR VERIFICATION

The expenditure claimed by the PIU/Lead Institution in Progress Reports should be generally presented under the budget line.

The form and nature of the supporting evidence (e.g. a payment, an agreement, an invoice etc.) and the way expenditure is recorded (e.g. 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 the underlying actions or transactions, whatever 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

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

Verification by the Auditor and verification coverage of expenditure items do not necessarily mean a complete and exhaustive verification of all the expenditure items that are included in a specific expenditure budget line. The Auditor should ensure a systematic and representative verification. Depending on certain conditions (see further below) the Auditor may obtain sufficient verification results for a budget line by looking at a limited number of selected expenditure items.

The Auditor may apply statistical sampling techniques for the verification of one or more expenditure budget lines of Progress Reports. The Auditor examines whether 'populations' 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 budget line of Progress Reports sampling has been applied, the method used, the results obtained and whether the sample is representative.

The Expenditure Coverage Ratio ("ECR") is the total amount of expenditure verified by the Auditor, expressed as a percentage of the total amount of expenditure reported by the PIU/Lead Institution in Progress Reports during the Review Period.

RISK INDICATORS - PROCUREMENT

- Inconsistencies in the dates of the documents or illogical sequence of dates. Examples (not limited):
 - Tender dated after the award of agreement or before the sending of the invitations to tender
 - Tender by the winning tenderer dated before the publication date of the tender or dated significantly later than tenders from other tenderers
 - Tenders by different candidates all having the same date
 - Dates on documents not plausible/consistent with dates on accompanying documentation (e.g. date on the tender 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 tenders by candidates participating in the same tender. Examples:
 - Same wording, sentences and terminology in tenders from different tenderers
 - Same layout and format (e.g. font type, font size, margin sizes, indents, paragraph wrapping, etc.) in tenders from different tenderers
 - Similar letterhead paper or logos
 - Same prices used in tenders from different tenderers for a number of subcomponents or line items
 - Identical grammar, spelling or typing errors in tenders from 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 the 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(ies) participates as a member of a tender evaluation committee
- Other elements and examples indicating a risk of a privileged relationship with tenderers:
 - The same tenderer (or small group of tenderers) is invited with unusual frequency to tender for different contracts
 - The 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

Annex 2C List of non-eligible expenditure

In conformity to article 1.3(e) of the General Conditions the following expenditure shall not be eligible to be financed by the RHP Fund:

- (a) the acquisition of land;
- (b) financial costs of investments (payment of debts, refinancing, interest charges etc.);
- (c) value added tax paid in the EU Member States or in the Partner Countries; and
- (d) any other costs which are not eligible under CEB's policy for loans and project financing

In addition to article 1.3(e) of the General Conditions and in conformity to the IPA Implementing Rules, the following expenditure shall not be eligible to be financed by the RHP Fund:

- (a) taxes, including value added taxes;
- (b) customs and import duties, or any other charges;
- (c) rent or leasing of land and existing buildings;
- (d) fines, financial penalties and expenses of litigation;
- (e) operating costs;
- (f) second hand equipment;
- (g) bank charges, costs of guarantees and similar charges (this does not apply to the management fee of CEB under art.3.6 of the RHP General Conditions.);
- (h) conversion costs, charges and exchange losses associated with any of the component specific euro accounts, as well as other purely financial expenses;
- (i) contributions in kind;
- (j) any leasing costs;
- (k) any depreciation costs

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 CEB and the procedures were performed solely to assist the CEB in evaluating whether the expenditure claimed by you in the accompanying Progress Reports is eligible in accordance with the terms and conditions of (i) the Framework Agreement and (ii) the Grant Agreement.

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 Progress Reports.

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Beneficiary(ies) 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 is the subject of this expenditure verification. The latter amount is equal to the total amount of expenditure reported by you in Progress Reports on the Sub-Project submitted to CEB during the Review Period as per your request of disbursement of <dd.mm.yyyy>.

We report the details of our factual findings which result from the procedures that we performed.

Use of this Report

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

This report is prepared solely for your own confidential use and solely for the purpose of submission by you to the CEB in connection with the requirements as set out in Article 2.1.3 of the Grant Agreement. This report may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

The CEB 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 CEB, who may rely upon this expenditure verification report at its own risk and discretion. The CEB can assess for itself the procedures and findings reported by us and draw its own conclusions from the factual findings reported by us.

The CEB may disclose this Report to RHP Fund Donors, the European Anti-Fraud Office and the European Court of Auditors.

This Report relates only to Progress Reports specified above (see Annex 1) 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,

Auditor's signature *[person or firm or both, as appropriate and in accordance with company policy]*

Name of Auditor signing *[person or firm or both, as appropriate]*

Auditor's address *[office having responsibility for the engagement]*

Date of signature <dd.mm.yyyy> *[date when the report is signed]*



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We have quantified the amount of the verification exceptions found and the potential impact on the total cost of a Sub-Project, should the CEB declare the expenditure item(s) concerned ineligible (where applicable taking into account the percentage of funding of the total cost and the impact on expenditure). We have reported all the exceptions found, including the ones for which we cannot quantify the amount or the potential impact on the total cost of a Sub-Project.

[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 procedures(s)/condition(s) described in Annex 2A of the ToR were not respected. Quantify the amount of verification exceptions found and the potential impact on the RHP Fund contribution, should the CEB declare the expenditure item(s) concerned ineligible.]

2.3.1 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.

2.3.2 Eligible Costs

2.3.3 Contingency Reserve

2.3.4 In kind contributions

2.3.5 Non-eligible costs

2.3.6 Revenues of the Sub-Project

[Describe factual findings and specify errors and exceptions.]

Appendix G

In conformity to article 1.3(e) of the General Conditions the following expenditure shall not be eligible to be financed by the RHP Fund:

- (a) the acquisition of land;
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- (e) operating costs;
- (f) second hand equipment;
- (g) bank charges, costs of guarantees and similar charges (this does not apply to the management fee of CEB under art.3.6 of the RHP General Conditions.);
- (h) conversion costs, charges and exchange losses associated with any of the component specific euro accounts, as well as other purely financial expenses;
- (i) contributions in kind;
- (j) any leasing costs;
- (k) any depreciation costs