

TERMS OF REFERENCE FOR AN EXPENDITURE VERIFICATION OF A GRANT CONTRACT

- EXTERNAL ACTION OF THE EUROPEAN UNION -

The following are the terms of reference ('ToR') under which **Customs Service of Republic of Moldova**, (The term "Coordinator" refers to the Beneficiary identified as the Coordinator in the Special Conditions) agrees to engage <**Grant Thornton Audit SRL**> (the Controller) to perform an expenditure verification and to report in connection with a European Union financed grant contract for an external action concerning RMCO 4.3/1 – 5.2. Expenditure verification services (the 'Grant Contract'). Where in these ToR the 'Contracting Authority' is mentioned, this refers to the European Commission, which has signed the Grant Contract with the Beneficiary and is providing the grant funding. The Contracting Authority is not a party to this agreement.

1.1. Responsibilities of the Parties to the Engagement

The term "**Beneficiary(ies)**" refers collectively to all Beneficiaries, including the Coordinator, of the Action. When there is only one Beneficiary of the Action, the terms Beneficiary(ies) and Coordinator should both be understood as referring to the only Beneficiary of the Action (see footnote 1). Where applicable the term 'Beneficiary(ies)' includes its affiliated entity(ies).

- The Coordinator is responsible for providing a Financial Report for the action financed by the Grant Contract which complies with the terms and conditions of the Grant Contract and for ensuring that this Financial Report reconciles to the Beneficiary's accounting and bookkeeping system and to the underlying accounts and records. The Beneficiary is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.
- The Coordinator 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 **Controller**' 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 Beneficiary. 'Controllerr' can refer to the person or persons conducting the verification, usually the engagement partner or other members of the engagement team. The engagement partner is the partner or other person in the audit firm who is responsible for the engagement and for the report that is issued on behalf of the firm, and who has the appropriate authority from a professional, legal or regulatory body.

By agreeing these ToR the Controller confirms that he/she meets at least one of the following conditions:

- The Controller 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 Controller and/or the firm is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.
- The Controller 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 State¹).

- The Controller and/or the firm is registered as a statutory auditor in the public register of a public oversight body in a third country and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to auditors and audit firms based in a third country).

1.2. Subject of the Engagement

The subject of this engagement are 2 interims and a final Financial Reports in connection with the Grant Contract for the period covering **28.06.2019 to 28.06.2022**, and the action entitled **SERVICE CONTRACT FOR THE EXPENDITURE AND REVENUE VERIFICATION**, the 'Action'. Annex 1 to these ToR contains information about the Grant Contract.

1.3. Reason for the Engagement

The Coordinator is required to submit to the Contracting Authority an expenditure verification report produced by an external auditor in support of the payment requested by the Coordinator under Article 15 of the General Conditions of the Grant Contract. The Authorising Officer of the Commission requires this report because the payment of expenditure requested by the Coordinator is conditional on the factual findings of this report.

1.4. Engagement Type and Objective

This expenditure verification is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Grant Contract. The objective of this expenditure verification is for the Controller to carry out the specific procedures listed in Annex 2A to these ToR and to submit to the Coordinator a report of factual findings with regard to the specific verification procedures performed. Verification means that the Controller examines the factual information in the Financial Report of the Coordinator and compares it with the terms and conditions of the Grant Contract. As this engagement is not an assurance engagement the Auditor does not provide an audit opinion and expresses no assurance. The Contracting Authority assesses for itself the factual findings reported by the Controller and draws its own conclusions from these factual findings.

1.5. Standards and Ethics

The Controller 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 Contracting Authority requires that the Auditor is

¹ Directive 2006/43 of the European Parliament and of the Council of 147 May 2006 on statutory audits of annual accounts and consolidated, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253 EEC.

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 Controller plans the work so that an effective expenditure verification can be performed. The Controller 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 Coordinator in the Financial Report. The Controller uses the evidence obtained from these procedures as the basis for the report of factual findings. The Controller 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 Coordinator and the Contracting Authority to understand the nature and extent of the procedures performed by the Controller and the factual findings reported by the Controller.

The use of the Model Report for an Expenditure Verification of an EU Grant Contract in Annex 3 of these ToR is compulsory. This report should be provided by the Controller to the **Customs Service of Republic of Moldova**, within min. **36 working days** after the day of signature of these ToR.

1.8. Other Terms

The fee for this engagement shall be **395000,00 MDL**

- Annex 1** Information about the Grant Contract
- Annex 2A** Listing of specific procedures to be performed
- Annex 2B** Guidelines for specific procedures to be performed
- Annex 2** – List of Indicative supporting documents required for Expenditure Verification
- Annex 3** – Procurement Risk Indicators
- Annex 4** – Control check-list
- Annex 5** - Template of Report on suspected and/or established fraud or corruption
- Annex 6** – General Declaration by the Beneficiary
- Annex 7** – Declaration on the worked number of hours
- Annex 8** – Template of Expenditure and Revenue Verification Report
- Annex 10** – Financial Report
- Annex 11** - TESIM Factsheet procurement Republic Moldova
- Annex 12** - Template of on the spot verification report

For the Controller

Name: *Stephane Bride*
Title: *Partner, CEO*

Signature: *[Signature]*
Date: *05.01.2016*

For the Beneficiary

Name: **Viorel MIHAILA**
Title: **Deputy Director,
Legal representative of RMCO Project**

Signature:
Date:



Annex 1 Information about the Grant Contract

Information about the Grant Contract	
Reference number and date of the Grant Contract	RMCO 81701 from 27.06.2019 RMCO 4.3/1
Grant contract title	Joint Operational Programme Romania- Republic of Moldova 2014-2020
Country	Republic of Moldova
Coordinator	National Agency of Fiscal Administration, no 17, Apolodor str., Bucharest
Beneficiary(ies) and affiliated entity(ies)	Customs Service of the Republic of Moldova, no.30, N. Starostenco street, Chisinau
Start date of the implementation period of the Action	28.06.2019
End date of the implementation period of the Action	27.06.2022
Total [accepted] [eligible] cost of the Action	6 500 000,00 Euro
Grant maximum amount	3 214 000,00 Euro
Total amount received to date by the Coordinator from Contracting Authority	
Total amount of the payment request	
Contracting Authority	
European Commission	
Auditor	<

Annex 2A Listing of Specific Procedures to be performed

1 General Procedures

1.1 Provisions of the Grant Contract

The Controller, concerning the content of the Grant Contract, if needed, shall request clarifications from the Beneficiary.

1.2 Financial Report for the Grant Contract

The Controller verifies that the Financial Report, complies with the following conditions of Articles 4.15, 5.4 of the Grant Contract:

- ✓ is filled in, in compliance with the instructions attached to the template;
- ✓ covers the eligible costs and revenue of the Project as a whole, regardless of source of financing;
- ✓ is drawn up in the currency (Euro) and the language of the Grant Contract (English);
- ✓ the expenditure is declared in original currency and is converted into euro automatically by the formulas inserted in the Expenditure and revenue verification report.

1.3 Rules for Accounting and Record keeping

The Controller examines — when performing the procedures listed in this Instruction — whether the Beneficiary has complied with the rules for accounting and record keeping of Articles 11.2 of the Grant Contract, namely, that the accounts:

- a) may be a separate accounting system or an integrated one, part of or an adjunct to Beneficiaries' regular system;
- b) comply with the accounting and bookkeeping policies and rules that apply in the country concerned;
- c) enable revenue and expenditure relating to the project to be easily traced, identified and verified.

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

The Controller reconciles the information in the Financial Report to the Beneficiary's accounting and book-keeping system, underlying accounting and other relevant records (e.g. trial balance, general ledger accounts, sub ledgers etc.). In this respect, the Beneficiaries shall prepare and keep appropriate reconciliations, supporting schedules, analyses and breakdowns for inspection and verification.

1.5 Exchange Rates

The Controller verifies that the expenditure is declared in original currency, and that the financial report is stated in euro. For the purpose of reporting, conversion into euro shall be made by each Beneficiary using the monthly accounting exchange rate of the European Commission of the month during which the expenditure was submitted for verification in accordance with Article 4.15 of the grant contract. To this end, the Controller shall keep evidence of the date when the expenditure has been submitted by the Beneficiary for verification i.e. confirmation e-mail, AWB, confirmation of receipt.

2 Procedures to verify Expenditure

2.1 Eligibility of Costs

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

- ✓ (1) Actual costs incurred (Article 8.1 to the Grant Contract) The Controller verifies that the actual expenditure for each item was incurred and paid by the Beneficiary. The Controller should take into account the conditions for actual

costs incurred as set out in Article 8.1 to the Grant Contract letter a). For this purpose, the Controller examines supporting documents (e.g. invoices, contracts) and proof of payment, proof of works done, goods received or services rendered and he/she verifies the existence of assets if the case. A list of supporting documents is described in Annex 2; the list is indicative as the controller will examine those documents that are in line with the specific type of expenditure and with the national legislation. The controller may ask for additional documents in accordance with national legislation and/or as he/she sees fit.

If sufficient supporting evidence is not available, the expenditure will be considered ineligible.

- ✓ (2) Implementation period (Article 2 (2.3) of the Grant Contract)
The Controller verifies that the expenditure for each item was incurred during the implementation period of the Project, as set in Art. 2 (2.3) of the Grant Contract. The following exceptions are allowed:
 - Costs related to studies and documentation for projects including an infrastructure component respectively, the expenditure for the Feasibility Study or equivalent, Environment Impact Assessment, other technical documentation, incurred during the project preparation period which starts after the approval date of the Programme, respectively 17 December 2015 – provision available only for LIPs and HARD projects and SOFT projects with an infrastructure component (article 8.1, j) of the Grant Contract);
 - Preparatory costs incurred by the project for the assurance of strong partnerships provision available only for HARD projects, SOFT project with an infrastructure component and SOFT projects (article 8.1, k) of the Grant Contract);
 - costs relating to final reports, only for expenditure verification, which may be incurred after the implementation period of the project. They may be paid afterwards, provided they are listed in the final report together with the estimated date of the payment (article 8.1, a) of the Grant Contract);
 - costs incurred after the date of submission of the project proposal provided that the Lead Beneficiary has demonstrated in the Description of the project the need to start the project implementation before the contract signature – provision applicable only for LIPs (article 8.1, l) of the Grant Contract).
- ✓ (3) Budget (Article 3 of the Grant Contract)
The Controller verifies that the expenditure for each item included in the Financial report corresponds with and is indicated in the budget of the Grant Contract or in the latest approved amended project budget in force at the date of report submission by the Beneficiary.
- ✓ (4) Necessity (Article 8.1 – d of the Grant Contract)
The Controller verifies whether the expenditure for each item was necessary for the implementation of the project and that it had to be incurred for the contracted activities of the project by examining the nature of the expenditure with supporting documents.
- ✓ (5) Records (Article 8.1 – e of the Grant Contract)

The Controller verifies that the expenditure for each item is recorded in the Beneficiary's accounting system and was determined according to the accounting standards and the usual cost accounting practices applicable to the Beneficiary;

- ✓ (6) Applicable legislation (Article 8.1 – f of the Grant Contract) The Controller verifies that expenditure complies with European and national legislation and with the requirements of tax and social security legislation where this is applicable.
- ✓ (7) Reasonable and justified expenditure (Article 8.1 – g and h of the Grant Contract) The Controller verifies that expenditure for each item is reasonable and is substantiated by evidence and supporting documents in accordance with the Indicative supporting documents listed in Annex 2 and it complies with the principles of sound financial management, in particular economy and efficiency.
- ✓ (8) Valuation
The Controller verifies that the monetary value of the expenditures is compliant with underlying documents (e.g. invoices, salary statements).
- ✓ (9) Classification
The Controller examines the nature of each expenditure item and verifies that the expenditure item has been classified under the correct budget or sub-budget line of the Financial Report.
It is also important that the classification of expenditure is consistent from one financial reporting period to another.
- ✓ (10) Compliance with Procurement rules applicable at Programme and national level and rules regarding Nationality and Origin
The Controller verifies whether the Beneficiary has concluded, according to the procurement rules set out in Article 9 of the Grant Contract, implementation contracts with contractors in line with expenditure (sub)budget line(s) or expenditure item(s). For this purpose, the Controller inspects the underlying documents of the procurement and purchase process.
Where the Controller finds issues of non-compliance, he/she reports the nature of such issues as well as their financial impact in terms of ineligible expenditure/ financial correction applied according to Guidelines for determining financial corrections to be made to expenditure financed by the Union under shared management, for noncompliance with the rules on public procurement. When examining supporting documents, the Controller takes into account the risk indicators listed in Annex 3.
- ✓ (11) Compliance with the information and visibility rules of the Programme (article 10 of the Grant Contract)
The controller checks whether the Programme requirements regarding information and visibility have been respected and the written JTS/Branch Office endorsement on the communication and information materials produced and paid by the Beneficiary from the project budget is available.
- ✓ (12) Eligible area
The Controller verifies that all expenses have been incurred in the core area of the Programme. In case of expenses incurred outside the core area shall verify that

provisions of Article 8.4 of the grant contract have been fully considered by Beneficiary.

2.2 Eligible Direct Costs (Article 8.2 of the Grant Contract)

The Controller verifies that expenditure items which are recorded under one of the direct costs budget lines of the Financial Report, are covered by the direct costs as defined in Article 8.2 of the grant contract by examining the nature of these expenditure items.

2.3 Indirect costs (Article 8.3 of the Grant Contract)

The Controller is not required to verify the actual costs on which flat-rate financing are based. According to Article 8.3 of the Grant Contract, flat-rate funding in respect of indirect costs does not need to be supported by accounting documents.

2.4 In kind contributions (Article 8.6 of the Grant Contract)

The Controller verifies that the costs in the Financial Report do not include contributions in kind. Any contributions in kind, do not represent actual expenditure and are not eligible costs. However, if the Description of the project foresees contributions in kind, the Controller shall verify if the contributions have been provided as such.

2.5 Non-eligible costs (Article 8.7 of the Grant Contract)

The Controller verifies that the expenditure for an item does not concern an ineligible cost as described in Article 8.7 of the Grant Contract.

2.6 Revenues of the Action

The grant may not produce profit for the Beneficiary during the implementation period. The Controller examines whether the revenues which should be attributed to the project have been allocated to the project and declared in the Financial Report, according to beneficiary's Declaration.

The receipts to be taken into account are the consolidated receipts on the date on which the payment request for the final balance is made by the Beneficiary that fall within one of the two following categories:

- a) revenue generated by the project;
- b) financial contributions specifically assigned by the donors to the financing of the same eligible costs financed by the Contract. Any financial contribution that may be used by the Beneficiaries to cover costs other than those eligible under the Contract or that are not due to the donor where unused at the end of the project are not to be considered as a receipt to be taken into account for the purpose of verifying whether the grant produces a profit for the Beneficiaries;
- c) interest produced by the pre-financing and interim payments received from the MA.

Annex 2B Guidelines for Specific Procedures to be performed

1 Verification evidence

1. When performing the verification of expenditure and revenues, the Controller may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations.
2. The Controller obtains the needed verification evidence in order to draw up the expenditure and revenue verification reports. The verification evidence includes information contained in the accounting records underlying the Financial Report and other type of information (financial and technical).
3. The Controller shall perform on-the-spot checks at least once during the projects' lifetime as to verify the outcomes of the project, evidence of services, works, or goods procured through the project, to verify that the expenditures are in compliance with the requirements of the programme, EC regulations and related national legislation in force. Moreover, in case of HARD projects or LIP, when the beneficiary reports expenditures related to execution of infrastructure (as per Chapter 3.2 of the Budget) of more than 100,000 EUR, the Controller must mandatorily perform on-the-spot check of 13 the executed infrastructure. For the purpose of the procedures, the Beneficiary must ensure that accounting and supporting documents:
 - are easily accessible and filed so as to facilitate their examination;
 - are available in the original form, in copies, including in electronic form;
 - are available in documentary form, whether paper, electronic or other medium (e.g. a written record of a meeting is more reliable than an oral presentation of the matters discussed). Electronic documents can be accepted only where:
 - the documentation was first received or created (e.g. an order form or confirmation) by the Beneficiary(ies) in electronic form; or
 - the Controller is satisfied that the Beneficiary uses an electronic archiving system which meets established standards (e.g. a certified system which complies with national law).
 - are preferably obtained from independent sources outside the entity (an original supplier's invoice or contract is more reliable than an internally approved receipt note);
 - are obtained directly by the Controller (e.g. inspection of assets) as these are more reliable than evidence obtained indirectly (e.g. inquiry about the asset).
4. If the Controller finds that the above criteria for evidence are not sufficiently met, he/she must record this in the factual findings.
5. The Beneficiary will allow the Controller 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 must give access to all documents and databases concerning the technical and financial management of the project;

6. The list of types and nature of evidence used by the Controller while performing the expenditure and revenue verification, shall be annexed to the Expenditure and Revenue Verification Report.

2 Verification coverage

The Controller shall verify 100% expenditures reported by the Beneficiary in the Financial Report and shall indicate if they are eligible in accordance with the grant contract, EU regulation and national legislation.

3 On the spot visit

When carrying out on the spot visit, the Controller shall take into account the following aspects:

a) Eligibility of expenditure:

- verification of the original supporting documents including the procurement documents related to the eligible expenses for which was requested the verification;
- the goods, services and works purchased are registered in the accounting of the Beneficiary in analytical accounts related to the project;
- the expenditures are performed in order to achieve the project objective.

b) The existence of the original supporting documents, including the existence of the project code on the original payment invoices and of the amounts partially settled, as the case may be;

c) The existence of goods, equipment, works, and their functionality;

d) Registration in the accounting of the Beneficiary of the purchased goods, services and works in the accounting of the Beneficiary. In this respect will check the following documents:

- statements of account and analytical balance sheet, signed and stamped (if the case may be according to the Ukrainian law);
- fixed asset sheet;
- invoices, minutes of commissioning and reception, contracts for the supply of products / services / works, other documents of origin of tangible assets, etc.;
- the value registered in the accounting of the Beneficiary is in accordance with the documents of origin of the tangible fixed assets.

e) The project has not received funding from other non-reimbursable funds – in this respect it will check whether the project code and "Project financed by" are registered on the original invoices;

f) Visibility of the project: it will be checked the consistency of the visibility measures implemented with those foreseen by the grant contract;

During the on-site visit, the Beneficiary will make available to the Controller, at request, any relevant document for performing the checks.

4 Reporting

4.1 The report on the expenditure and revenue verification shall describe the purpose, the agreed-upon procedures and the factual findings of the engagement in sufficient detail to enable the Beneficiary and the Managing Authority to understand the nature and extent of the procedures performed by the Controller and the factual findings reported by the Controller. When undertaking the expenditure and revenue 15 verification, the Controller shall use the Check-list presented in Annex 4, which shall be filled in and attached to the Expenditure and revenue verification report.

4.2 In addition to this report, if the case may be, a report on suspected and/or established fraud or corruption shall be elaborated and sent directly to the National Authority without any need of informing the concerned Beneficiary.

4.3 The use of the template of report on expenditure and revenue verification (presented in Annex 8) and on the suspected and/or established fraud or corruption) (Annex 5) is compulsory.