

**TERMS OF REFERENCE
FINANCIAL AND COMPLIANCE AUDIT OF
THE ACTIVE CITIZENS FUND PROGRAMME**

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1 Background

Overview of the Active Citizens Fund Programme

The EEA and Norway Grants represent the contribution of Iceland, Liechtenstein and Norway to reducing economic and social disparities and to strengthening bilateral relations with 15 EU countries in Central and Southern Europe, and the Baltics. A total contribution of € 2.8 billion to the 15 beneficiary countries has been agreed for the 2014-2021 Grants. The **Financial Mechanism Office** (FMO) administers the EEA and Norway Grants, acting as a secretariat to the three donor states.

There are five priority sectors, each comprising a number of 'programme areas', for the 2014-2021 period. These reflect the priorities of the EU and aim to respond to the shared challenges facing Europe. The specific priorities and allocations of funding to each programme area vary for each beneficiary country depending on its needs and own priorities.

One of the programme areas under the priority sector 'Culture, Civil Society, Good Governance, and Fundamental Rights and Freedoms' is **Civil Society**, which has the objective of strengthening civil society and active citizenship, and empowering vulnerable groups. It seeks to develop the long-term sustainability and capacity of the civil society sector, with the aim of strengthening its role in contributing to policy and systemic change, promoting democratic participation, active citizenship, and human rights. Each of the 15 beneficiary countries is required to set aside 10% of their total allocations for this programme area.

To help meet the above objective, an **Active Citizens Fund Programme** (the Programme) was established in < *beneficiary country* >, and the < *name of the lead member of the FO consortium* > in partnership with < *name(s) of all the other members of the FO consortium* > was/were selected to implement the Programme as the **Fund Operator** (FO).

The FO is responsible, amongst other things, for organisation of open calls, selection and contracting of projects contributing to the specific Programme outcomes and the objective.

The roles and responsibilities of the FMO and the FO are set out in the **Programme Implementation Agreement** (PIA) and its annexes, signed on < *date of signature* > between the parties. In addition, specific guidance is provided to the FO in the form of a **Manual for Fund Operators of Active Citizens Fund** (the Manual), which forms part of the legal framework set out in Article 1.5 of the PIA.

2 Objectives

The **objectives** of this audit are to enable the Auditor to express an opinion on whether:

- The Financial Report presents fairly, in all material respects, the actual expenditure incurred by the selected Project Promoters (PPs)/FO, and the revenue received, in conformity with the applicable Contractual Conditions; and
- The Programme funds provided have, in all material respects, been used in conformity with the applicable Contractual Conditions.

The specific objectives, or audit assertions, that the auditor should cover in the audit are:

- Compliance with the co-financing requirement at project level, including compliance of any in-kind contribution in the form of voluntary work with the rules set out in Article 4.5 of the PIA, Point 4.3 of Annex II and Chapter 9.1 of the Manual;
- Reality and measurement: underlying operations exist and are accurately determined;
- Eligibility of underlying transactions: the expenditure meets the eligibility criteria set out in Chapter 4 of the PIA and Chapter 9.2 of the Manual;
- Compliance with Public Procurement rules set out in Chapter 7 of the PIA;
- Compliance with other requirements: other (non-eligibility) criteria are met;
- Correctness of calculations: all calculations are correctly undertaken;

- Completeness and accuracy of accounting: all transactions are accounted for, are not included more than once, and are recorded in the correct accounting period and at correct value; and
- Compliance with the information and communication rules set out in Chapters 3 of the PIA and Chapter 3 of the Manual.

3 Scope

Article 9.5 of the PIA requires an independent, external financial and compliance audit of:

- at least 10% of expenditures incurred by the PPs (other than the FO), covering at least 15% of projects;
- all predefined project(s) implemented directly by the FO¹; and
- the expenditures incurred directly by the FO under the programme budget headings: Fund for Bilateral Relations and Fund for Regional Civil Society Initiatives

The subject of the audit is the expenditure and revenue as stated in the:

- final project financial report (before approval by the FO) submitted by the PPs for the projects selected for the audit;
- final project financial report for the predefined project(s) implemented directly by the FO; and
- list of expenditures incurred, during the programme operational period, directly by the FO under the programme budget headings: Fund for Bilateral Relations and Fund for Regional Civil Society Initiatives.

[It is recommended that the projects' audits are carried out after submission of the final project report and before its approval by the FO. In such case, the audit scope will include all the expenditures reported for the project.]

Please refer to Chapter 9.7 of the Manual for more detailed clarifications including an example of the sample calculation.

Key data from the Programme is provided below:

<i>Key figures for the Programme</i>	
Programme operational period (PIA Article 1.13)	< date > to < date >
Total Programme budget	< € amount >
Total number of projects funded (excluding predefined project(s) implemented directly by the FO)	< number >
Total amount of expenditure reported as incurred by PPs as at < date > (excluding predefined project(s) implemented directly by the FO)	< € amount >
Total number of predefined projects implemented directly by the FO	< number >
Total amount of expenditure reported under predefined projects implemented directly by the FO	< € amount >
Total amount of expenditure reported by FO under the programme budget headings: Fund for Bilateral Relations and Fund for Regional Civil Society Initiatives	< € amount >

The audit should be performed at the premises of the FO as well as at the premises of the PPs selected for the audit. The Auditor should confirm the location(s) of the audit with the FO prior to the start of the audit fieldwork and ensure that relevant supporting documents as well as key staff will be available at these locations during the audit.

¹ When the FO is a consortium, the requirement applies to predefined projects implemented by all the organisations and not only to the lead partner.

The Auditor should obtain a preliminary understanding of the engagement context, including the Contractual Conditions for the Programme, the Entities (FO and PPs), and the nature and scope of the projects subject to audit.

The Auditor should verify compliance of expenditures with the Contractual Conditions applicable for the Active Citizens Fund Programme including the legality and regularity of these expenditures, not simply that the relevant transaction has been authorised, incurred, and paid.

The term 'Contractual Conditions' refers to the conditions, rules, and other criteria set out in:

- the Programme Implementation Agreement (PIA) including Annexes (attached to these ToRs);
- the Manual for the Fund Operators of the Active Citizens Fund (attached to these ToRs);
- the Project Contracts with the PPs including the detailed annexed budget (to be provided by the FO);
- the Partnership Agreement with project partners (if applicable) (to be provided by the FO)
- for predefined project(s) implemented directly by the FO: "legislative or administrative act" by the Board of the respective organisation by way of a resolution or similar document to that effect, that reflects the content requirements of the project contract as specified under PIA Article 6.6 including the detailed budget (to be provided by the FO)
- the < *beneficiary country's* > national legislation applicable to the FO / PP / Partner.

The Auditor will inform the FO as soon as possible about any limitations in the scope of work prior to, or during the audit. The Auditor will report any attempt by any of the entities to restrict the scope of the audit, or any lack of co-operation on the part of any of the entities. The Auditor will consult the FO on what action may be required, whether or how the audit can be continued and whether changes in the audit scope or the timetable are necessary.

4 Standards and Guidance

This financial and compliance audit is governed by:

- The IFAC International Framework for Assurance Engagements;
- The IFAC International Standards on Auditing (ISAs) for Audits of Historical Financial Information insofar as these can be applied in the specific context of a contractual compliance audit (refer to further guidance set out in Annex 2 of the ToR);
- The IFAC Code of Ethics for Professional Accountants (issued by IFAC's International Ethics Standards Board for Accountants - IESBA), which establishes the fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards; and
- The IFAC International Standards on Quality Control (ISQCs), which establish standards and provide guidance on the Auditor's system of quality control.

5 Requirements for the Auditor

Qualifications and Experience

The Auditor staff shall possess appropriate professional qualifications and suitable experience with IFAC standards, in particular ISAs, and with experience in auditing financial information of entities comparable in size and complexity to the entities subject to audit.

The curricula vitae (CVs) of the audit team members should be submitted with the auditor's proposal and should identify clearly relevant expertise.

Team composition

The audit team should consist of an engagement leader who will have the ultimate responsibility for the audit, and other audit team members as appropriate to fulfill the audit requirements. The audit work should be performed by an appropriate mix of experts, including an audit manager or team leader, who will supervise the work of other team members. At least one of the members of the team must be fluent in the language of the country where the audit takes place and should have an understanding of the relevant laws, regulations and rules, including accounting, taxation, and labor and social security.

6 Audit Procedures

The audit should be performed in accordance with the specific guidance set out in Annex 2.

The Auditor should exercise due professional care and judgment in order to determine the nature, timing, and extent of audit procedures appropriate for the objectives, scope, and context of the audit. Accordingly, additional procedures may be required in order to confirm the audit assertions, taking into consideration the specific audit risks involved.

Start and timing of the audit

The audit of the final project financial reports from the PPs should be conducted before their approval by the FO, and by <FO deadline date>. The audit of the expenditure directly incurred by the FO should be conducted by <date> before submission of the Final Programme Report to the FMO [*the PIA has set the deadline as no later than two months after the end of the operational period*].

The Auditor should, in advance of the visit, liaise with the FO and other entities and agree the timing of the audit.

Planning and fieldwork

The Auditor should, prior to the actual visits on-site, ensure that the objectives and scope of the audit are clearly communicated to the relevant entities, and that all necessary documents (for planning and executing an effective audit) are received, including:

- Final financial reports for the projects subject to audit (including for pre-defined projects implemented directly by the FO);
- Transaction lists supporting the financial reports and clearly showing how individual items map to the categories in the respective financial reports;
- List of expenditures incurred during the programme operational period directly by the FO under the programme budget headings: Fund for Bilateral Relations and Fund for Regional Civil Society Initiatives;
- Relevant contracts and agreements (i.e. PIA and the Manual, Project Contract, Partnership Agreement, etc.).

The actual audit procedures should be performed using an appropriate mix of tests of details, analytical procedures, and tests of controls (as appropriate), in accordance with the relevant ISAs (see guidance set out in Annex 2 of this ToR).

At the end of the fieldwork, the Auditor should discuss any preliminary findings with the FO and other audited entities, before preparing the draft report.

Materiality

For the purpose of determining what a material misstatement or error is, the Auditor should apply a materiality threshold of 2% of the total amount of gross expenditure with a confidence level of 95%.

The Auditor will report all financial findings **regardless of the amount involved** and identify whether these are of a systemic nature or not. Any errors of a systemic nature should be investigated, and a relevant management control finding raised as appropriate.

Reporting

A separate audit report should be issued for each project audited as well as for each Fund for Bilateral Relations and Fund for Regional Civil Society Initiatives expenditure list audited.

The report should follow a format set out in Annex 1 to this ToR.

[The FO can alternatively agree with the Auditor to issue one audit report covering all the projects and costs subject to the audit.]

[The FO can request the report in in English]

The Auditor should submit a draft report to the FO within <number> calendar days after the last day of the fieldwork. The FO and other audited entities shall then provide, within <number> calendar days, responses (including further documents and explanations) addressing the findings raised in the report. Following this, the Auditor shall have <number> calendar days to consider (and discuss) the responses received from the audited entities and issue the final report.

The period between the last day of the fieldwork and the issuance of the final report should not exceed <number> calendar days. Should it become apparent that this deadline cannot be respected, for whatever reason, the FO should be informed of the circumstances and a revised deadline should be set.

Fraud and irregularities

Should the Auditor, in the conduct of the specific procedures, encounter or uncover any incidents of (potential) fraud or irregularity, such incidents should be reported immediately to the FO (or, if the FO is implicated directly, to the FMO).

Annexes:

Annex 1 Financial and Compliance Audit Report Template

Annex 2 Financial and Compliance Audit Procedures

Annex 3 Programme Implementation Agreement

Annex 4 Manual for Fund Operators of Active Citizens Fund

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