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1. PURPOSE

The purposes of this procedure are to describe the Terms of Reference for the appointment of contracts to External Auditors to:

a) design and carry out the assignments specified below under International Auditing Standards and scope and procedures of this engagement.

Audits have the purpose of establishing whether:

- The accounts give a true and fair view;
- The control systems put in place function properly;
- The underlying transactions are legal and regular

b) to perform an opinion on the operation of the control system of PRIMA.

This opinion will accompany the annual report sent by PRIMA to the European Commission according to article 19 of the Delegation Agreement (DA).

- the control systems put in place function properly;
- the underlying transactions are legal and regular; and
- the audit work puts in doubt the assertions made in the management declaration

2. SCOPE

This procedure applies to the following tasks:

2.1. EXPENDITURE VERIFICATION FOR GRANTS BENEFICIARIES

PRIMA-IS agreed to submit to the European Commission expenditure verification reports produced by an external auditor in support of the payments requested by PRIMA-IS under Article 20 of DA.

The Auditors shall carry out the expenditure verification for beneficiaries with the objectives to verify the expenditure correctives and shall submit to the PRIMA-IS reports of factual findings concerning the specific verification procedures performed. Verification means that the Auditor examines the factual information in the Financial Report of beneficiaries and compares it with the terms and conditions of the Grants Agreement and PRIMA-IS Guidelines for beneficiaries.

2.2. AUDIT OF PRIMA-IS FINANCIAL STATEMENTS

The purpose is to produce 2020, 2021, and 2022 financial statements under IPSAS and submit them to audit/certification.

The Audit review of PRIMA-IS Financial Statements aims to ensure that the financial management and control of budget operations comply with relevant legislation, budget descriptions, International Public Sector Accounting Standards (IPSAS), and the principles of sound financial management, transparency, efficiency, effectiveness, and economy. The auditor will provide a report which will express an opinion on the examined financial statement.



2.3 AUDIT ON INTERNAL CONTROL SYSTEMS

To ensure that the procedures approved by the Foundation are being carried out correctly. The auditor will provide a report which will express an opinion on the selected tested on each chapter of the current document and state which are the factual findings for each one.

3. ABBREVIATIONS/ACRONYMS

DIS Dedicated Implementation Structure

EC European Commission

DA Delegation Agreement

4. TERMS OF REFERENCE.

4.1. DESCRIPTION OF REQUESTED SERVICES

The requested services for 2020,2021 and 2022 will be the following:

4.1.1 EXPENDITURE VERIFICATION FOR GRANTS BENEFICIARIES

Auditors will be asked to perform audits on beneficiaries of the grants awarded by PRIMA-IS on the years 2021 and 2022.

The audit sample of PRIMA-is grants will be decided by the Foundation each year with at least 30% of the total auditable projects.. PRIMA-IS will direct the audit to those sites receiving the most grant funding, and/or those sites which PRIMA-IS has the greatest concern as to the level of accounting and reporting capacity based on his site visits. Where a site is receiving more than one PRIMA-IS grant, then the audit will cover the annual financial returns for each separate grant, correspondingly, the audit will take longer to conduct in these cases. Sites in both the North and South shore of the Mediterranean sea will be included in the annual audit sample. The audit report which will be produced by the firm for each of the audits conducted must be in a standard format and will be specifically required to report on:

- Annual financial return: audit the annual financial return which the institution has provided to PRIMA-IS, for accuracy and validity and checking the figures to the actual source documents for authenticity. This is not an audit of the internal controls and accounting systems of the institution itself but an audit of the PRIMA-IS financial return which has been prepared on a cash (not accruals) basis.
- Where a site has received more than one grant from PRIMA-IS, then to check that the same expenditures have not been charged to more than one PRIMA-IS grant.
- Fixed asset verification: physically verify the equipment that was approved and funded by PRIMA-IS. Check it has been labeled with PRIMA-IS stickers and is in working condition.
- Site infrastructure upgrade: where PRIMA-IS has funded building renovation to review this has been done and check costs reported on the financial return to the source documents. Check to see that there has been recent visible renovation work carried out at the buildings as claimed and is reasonable with the costs claimed.

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- Staff charges: ensure that the charged staff charged to the project is working or have been working on the project for the percentage of the time reported on by checking timesheets or if they have been recruited specifically for the grant. Check the gross salary cost claimed are what the institute has paid and are in line with the usual rates.
- Salary supplements: verify that the reported salary supplements are only given where they have been agreed in the budget with PRIMA-IS and are in compliance with the financial guidelines.
- Verify that only eligible costs (as listed in the PRIMA-IS financial guidelines) may be entered on the budget and in the annual financial return.
- Check that travel and subsistence allowances for the staff taking part in the grant are in line with the Grantee's normal policy on such costs for staff traveling and that no business class tickets have been charged to PRIMA-IS.
- Confirm that all costs entered on the annual financial return, are eligible as per the PRIMA-IS financial guidelines definition.
- Ensure no costs have been charged to the grant before the effective date of signing or after the grant officially ends.
- Check that no costs included on the financial return include any recoverable taxes.
- Confirm that the policy on the purchase of goods and services has been followed the normal institute's procedures for procurement and that tendering rules have been observed where required in the PRIMA-IS financial guidelines for goods and services over a certain value.
- Assure that payments are in compliance with the standard procedures of the Institution, and have been signed by authorised signatures.
- Verify that no PRIMA-IS funds have been invested in anything other than a bank account which is operated and in the name of the institution.
- Check that no loans or advances have been made to staff with PRIMA-IS funds
- Check that PRIMA-IS funds are traceable to bank reconciliation and that the movement on the accounts matches the financial return, and that this is reviewed monthly by the Head of finance.
- Review the exchange rate used for converting local amounts into Euros to see that this is reasonable.
- Verify and confirm that staff timesheets are signed and correspond to the reported staff working time on the grant for any staff working.
- Check that any interest generated by the grant funds, has been applied to the research purposes of the project and those costs have been included in the financial return.
- All other requirements under the PRIMA-IS financial guidelines have been observed when completing the annual financial report.

4.1.1. AUDIT OF PRIMA-IS FINANCIAL STATEMENTS

The auditors will be asked to conduct an audit in accordance with International Standards on Auditing issued by the International and Assurance Standards Board on PRIMA-IS financial statements. Those standards require that the auditors plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The audits shall be conducted so to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the



assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the entity's internal control. Audits also include evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. In particular, the following shall be audited:

- Cash management: review bank reconciliations, count on-hand cash, confirm restrictions on bank balances, issue bank confirmations.
- Accounts receivable: confirm account balances.
- Fixed Asset Management: observe assets, review purchase and disposal authorizations, review lease documents, examine appraisal reports, recalculate depreciation, and amortization.
- Accounts payable. Confirm accounts, test year-end cut off.
- Accrued expenses. Examine subsequent payments, compare balances to prior years, recomputed accruals.
- Revenue: examine documents supporting the transfer of funds by the European Commission to PRIMA-IS.
- Expenses: examine documents supporting a selection of expenses, review subsequent transactions, confirm unusual items with suppliers.

4.1.2. INTERNAL CONTROL SYSTEMS

4.1.3.1 Substantial changes in the control environment

The auditor must confirm that the following information has been communicated to the European Commission (the "Commission"):

- Substantial changes to the dedicated implementation structure (DIS) systems, rules, or procedures that relate to the management of the entrusted EU funds
- A substantial change in the DIS legal, financial, technical, organizational, or ownership situation

4.1.3.2 Risk assessment

Obtain the DIS risk register and confirm that there is a risk response for each risk identified. In case of critical risks confirm that the Commission has been informed.

4.1.3.3 Whistleblowing and fraud follow-up

Obtain the internal DIS reporting on whistleblowing and fraud cases and confirm that if an investigation is mentioned in the reporting, a follow up by the DIS is indicated in the reporting.



4.1.4 GRANTS

4.1.4.1 Awarding grants (Article 7 of the DA)

Obtain a list of all Calls for the grant awarded during the year and confirm for 50 % of calls (selected randomly) with a minimum of 2 calls and 5 proposals by call that:

- the call was mentioned in the work plan and has been published
- admissibility and eligibility checklist as completed for all applications under the related call(s);
- the independent review took place with 3 independent reviewers;
- if it is a joint call with third countries or third parties, confirm that the evaluation and selection procedure involves a balanced group of independent experts appointed by each party;
- the evaluation report with the final ranking list is signed by the members of the evaluation committee;
- the BoT made the formal decision to award the grants;
- Indicate issues arising from the above verification and those reported by:
 - the evaluation report
 - the observer report if applicable

4.1.4.2 Request for redress

Indicate the number of requests for redress received by PRIMA. Give the number of appeals and the number of cases lost by the DIS.

4.1.5 RULES AND PROCEDURES FOR APPOINTING EXPERTS

Confirm for 10% of experts involved in the selection and monitoring processes with a minimum of 10 experts (selected randomly) that they have signed a declaration of absence of conflict of interests.

Indicate if the rules applied by the DIS for selecting experts comply with the H2020 Rules for Participation and Decision 2017/1324.

4.1.6 PROCUREMENT

4.1.6.1 Obtain the detail/breakdown of contracting costs

Obtain the detail/breakdown of contracting costs which are registered under other actions and administrative costs and select a random sample of cost items (full coverage is required if there are fewer than 10 items, otherwise the sample should have a minimum of 10 items, or 10% of the total, whichever number is highest).

- if it concerns pre-commercial procurements or procurement of innovative solutions the Auditors verify that the provisions of the rules for participation are followed (DA Article 8).
- if the Beneficiary did not fall under the above-mentioned category, for the items included in the sample, the Auditor verifies that the DIS followed its own rules and procedures on procurements and indicates any instances of non-compliance, specifically those related to the thresholds for open procedures.

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- For the items included in the sample, verify that:
 - when it concerns other actions, it was mentioned in the work plan
 - there were signed agreements between the Beneficiary and the contractor;
 - there was evidence that the services/equipment were provided by the contractor.

4.1.6.2 Unsuccessful tenderers

Indicate the number of complaints of unsuccessful tenders received by PRIMA. Give the number of appeals and the number of cases lost by the DIS

4.1.7 ADMINISTRATIVE EXPENDITURE

4.1.7.1 Personnel directly assigned to the implementation of the program

Allocation of staff costs are based on actual hours and actual salary according to the ex-ante assessment- For 10% of the persons paid under the PRIMA program with a minimum of 5 persons selected randomly, verify:

- a contract is signed and the payroll paid in December is compliant with the contract and promotions
- the person is assigned to the implementation of PRIMA
- timesheets are signed and reviewed by the line manager
- reconcile the detail of costs calculated and allocated to PRIMA with:
 - the end of year calculation of hours by a project approved by the DFA
 - the end of year calculation of salaries paid

4.1.7.2 Other direct costs

For a random sample of 10% for each of the following categories of other direct costs assigned to the implementation of the PRIMA program verify that internal PRIMA rules are followed and check compliance with:

- Missions
- Service contracts
- Consumables and supplies
- Depreciation of equipment
- Costs fees for audit of annual statutory accounts

4.1.8 PUBLICATION OF INFORMATION ON RECIPIENTS AND EXPERTS

The information on recipients of EU Funds (for grants and contracts) and experts is published annually on the DIS website in compliance with DA Article 16.

4.1.9 MANAGEMENT DECLARATION

Declare that the audit work performed does not put in doubt the assertions made in the management declaration (DA Article 19 (d) (iv) opinion independent body).



4.1.10 IMPLEMENTATION OF THE RECOMMENDATIONS OF THE EX-ANTE ASSESSMENT

Document in an annex to this questionnaire the review of the implementation of the recommendations of the ex-ante assessment (provided in annex to the DA). The review will be presented by recommendation and mention the work performed and the conclusion(s) on the implementation.

4.1.11 EARLY DETECTION AND EXCLUSION SYSTEM

Auditors check that Article 15.1 and 15.3 have been complied with by the DIS.

4.2. REQUIREMENTS.

4.2.1. GENERAL PRINCIPLES.

PRIMA-IS requires an audit firm to be:

- An independent professional audit firm (private sector) which is a member of an established national Accounting or Auditing Body (IFAC) and the audit must perform under the applicable national standards on auditing and these standards comply with International Standards on Auditing ('ISAs') issued by the International Auditing and Assurance Standards Board (IAASB).
The audit company must sign the Code of Conduct of PRIMA-IS which establishes the fundamental ethical principles of PRIMA-IS. Also, the auditor shall perform the audit according to the Code of Ethics which establishes the fundamental ethical principles for auditors, compliant with the IFAC code of ethics for professional accountants, issued by IFAC's International Ethics Standards Board of Accountants (IESBA). The audit firm shall provide evidence of the adoption of such a Code of Ethics is written. The audit company must guarantee the maximum independence of auditor to processes and activities object of the assignment
- A national audit institution or supreme court of auditors, which are members of INTOSAI (International Organization of Supreme Audit Institution). In this case, the audit shall be performed under the applicable national standards on auditing which shall comply with INTOSAI Standards. The auditors must sign the Code of Conduct of PRIMA-IS which establishes the fundamental ethical principles of PRIMA-IS. Also, the auditor shall perform the audit according to the Code of Ethics which establishes the fundamental ethical principles for auditors, compliant with the INTOSAI code of ethics (ISSAI 30) or equivalent. Auditors shall provide evidence of the adoption of such a Code of Ethics is written. The audit company must guarantee the maximum independence of the auditor concerning the processes and activities object of the assignment.

Also, the signatory of the Audit Firm shall declare under his/her responsibility that the audit firm:

- a) is not bankrupt or is being wound up, where the affairs of the applicant are being administered by the court, nor has entered into any arrangement with creditors, nor has suspended business operations or is any analogous situation arising from a similar procedure under national laws and regulations
- b) is not the subject of proceedings for a declaration of bankruptcy, for an order for a compulsory winding up or administration by the court or of an arrangement with creditors or any other similar proceedings under national laws and regulations



- c) has not been convicted of any offense under the legal provisions of the country of any offense concerning the applicant's professional misconduct
- d) has not been guilty of grave professional misconduct
- e) has fulfilled the obligation to paying any taxes or social security under the law of the country of residence.

All information shall be treated confidentially.

4.2.2. PERSONNEL.

4.2.2.1. EXPERTS

This Terms of Reference contains expert profiles and the tenderer shall submit CVs and Statement of Exclusivity and Availability for the experts.

All experts must be independent and free from conflicts of interest in the responsibilities accorded to them.

The Auditor shall employ adequate staff with appropriate professional qualifications and suitable experience with IFAC standards, in particular International Standards on Auditing and with experience in auditing the accounts of entities comparable in size and complexity to PRIMA-IS. Besides, the audit team as a whole should have:

experience with audits of projects funded by national and/or international donors and institutions. It is desirable that the leader of the fieldwork team i.e. either the audit manager or the senior auditor has experience with audits of EU funded actions;

It is required fluency in English for all the team.

All experts who have a crucial role in implementing the contract are referred to as experts. The profiles of the experts for this contract are as follows:

Expert 1: Audit Partner

An audit partner must be a highly qualified expert with a relevant university or professional qualification and assuming or having assumed senior and managerial responsibilities in the public audit practice. He/she should be a member of a national accounting or auditing body or institution. He/she must have at least 12 years of professional experience as a professional Auditor or accountant in the public audit practice.

An audit partner, or another person in a position similar to that of a partner, is the person of the audit firm who is responsible for the engagement and its performance and shall sign the report that is issued on behalf of the firm. He/she has the appropriate authority from a professional, legal, or regulatory body and is authorized to certify accounts by the laws of the country in which the audit firm is registered.

Auditor Partner has the ultimate responsibility for the engagement and an engagement team.

Expert 2: Senior Auditor

A senior auditor must be a qualified expert with a relevant university or professional qualification and at least 3 years of professional experience in the public audit practice.



Other experts, support staff & backstopping

CVs for experts other than the experts should not be submitted in the tender. The Auditor shall select and hire other experts as required according to the needs. The selection procedures used by the Auditor to select these other experts shall be transparent and shall be based on pre-defined criteria, including professional qualifications, language skills, and work experience.

Cost for backstopping and support staff, as needed, are considered to be included in the financial offer of the tenderer.

4.2.2.2. CURRICULA VITAE

The Auditor will provide PRIMA-IS with cvs of the partner or other person in the audit firm who is responsible for the engagement and for signing the report together with the CVs of the audit managers, supervisors, and staff proposed as part of the engagement team. CVs will include appropriate details on the type of audits and other engagements (particularly agreed-upon procedures) carried out by the staff indicating capability and capacity to undertake the engagement as well as details on relevant specific experience.

PRIMA-IS will examine the CVs before it signs an order document for the engagement and will reject them if they are not considered suitable for the requirements of the engagement.

4.2.3. LOGISTICS AND TIMING

4.2.3.1. LOCATION

The expenditure verification will be performed at PRIMA-IS headquarters. PRIMA-IS will grant access to its headquarters for the auditing periods during the following working hours: from 9 AM to 6 PM.

4.2.3.2. COMMENCEMENT DATE & PERIOD OF IMPLEMENTATION OF TASKS

The commencement date shall be agreed by both parts after the signature of the contract and the period of implementation shall be twelve months from the commencement date.

4.2.4. REPORTS

Audit and expenditure verification reports should describe the purpose, the agreed-upon procedures, and the factual findings of the engagement in sufficient detail to enable the Secretariat to understand the nature and extent of the procedures performed by the Auditor and the factual findings reported by the Auditor.

The audit report shall include:

Audit Findings and Recommendations

Audit findings and recommendations should be reported under the (table) formats and criteria specified in the model report for a Financial Audit in Annex 1.

The Auditor should explicitly state and specify results (satisfactory and unsatisfactory) of specific procedures for obtaining audit evidence in case of doubt or uncertainty concerning the eligibility of expenditure in the financial findings sections of the draft and final report (unless a finding is no longer valid).



The audit report should include all financial findings made by the Auditor regardless of the amount involved. Changes in the financial findings occurring between the draft and the pre-final or final report as a result of the consultation procedure should be clearly and sequentially reported.

Audit Opinion

Audit opinions can be unqualified, qualified, adverse, or a disclaimer of opinion and should be formulated under the format for the Independent Auditor's Report for a Financial Audit. This format is included in the model report for a Financial Audit in Annex 1. The model report also includes guidance for the use of opinions.

The Auditors will submit reports in English in one original and a copy in paper and an electronic version using MS Word or MS Excel or PDF formats. Reports to be prepared for each assignment are:

- **Draft report** [in the format given in the corresponding Annex]. It is recommended that the auditor submits, before issuing the final report, a draft report to PRIMA-IS to validate the findings (i.e. to sort out potential misunderstandings, additional information/documents to be provided, etc). This report shall be submitted no later than 5 days after the end of fieldwork.
- **A final report** with the same specifications as the draft final report, incorporating any comments received from the concerned parties on the draft report. The final report shall be provided by the latest 3 days after the receipt of the comments on the draft final report. The final report must be provided along with the corresponding invoice.

Reports shall cover at least:

- the results of the audits performed, in terms of number of audits, audit coverage in terms of amount audited in comparison with the amounts paid out to beneficiaries (for audit on beneficiaries), conclusions and costs eventually disallowed;
- the nature, amount, and recurrence of the findings, and the costs categories affected and in particular whether any irregularity or fraud has been discovered;
- any consequences from errors/irregularities identified (if applicable);
- any fraud or irregularity that was highlighted during the audits.

The report referred to above must be submitted to the contact person that shall be identified in the contract. The contact person is also responsible for approving the reports.

4.3 ECONOMICAL OFFER

The economic offer must be detailed per each year and include the price for all the services described on point 4.1 (Description of the services required) separately:

- 1- Price for Audit for PRIMA Annual Financial Accounts.
- 2- Price for Audit on the PRIMA internal control systems.

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- 3- Price per each action audit according to article 22 of the PRIMA Model Grant Agreement in order to check the proper implementation of the action and compliance with the obligations under the Agreement.