

Report for an Expenditure Verification of a Grant Contract

External Actions of the European Union

Strengthening EU Business Development in Armenia

ENI/2018/399-571

Yerevan, February 2021

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REPORT OF FACTUAL FINDINGS

Diana Sarumova, Executive Director

European Business Association, Yerevan Str. Nairi Zaryan 73/1

22 February, 2021

Dear Ms. Diana Sarumova,

In accordance with the engagement letter dated 11.11.2020 that you agreed with us, we provide our Report of Factual Findings (“the Report”), with respect to the accompanying Financial Report for the period covering 03.10.2018 – 03.10.2020 (Annex 1 of this Report). You requested certain procedures to be carried out in connection with your Financial Report and the European Union financed Grant Contract concerning Strengthening EU Business Development in Armenia/ENI/2018/399-571, the ‘Grant Contract’.

Objective

Our engagement was an expenditure verification which is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Grant Contract between you and the European Commission the ‘Contracting Authority’. The objective of this expenditure verification is for us to carry out certain procedures to which we have agreed and to submit to you a report of factual findings with regard to the procedures performed.

Standards and Ethics

Our engagement was undertaken in accordance with:

- International Standard on Related Services (‘ISRS’) 4400 *Engagements to perform Agreed-upon Procedures regarding Financial Information* as promulgated by the International Federation of Accountants (‘IFAC’);

- the *Code of Ethics for Professional Accountants* issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the auditor also complies with the independence requirements of the *Code of Ethics for Professional Accountants*.

Procedures performed

As requested, we have only performed the procedures listed in Annex 2A of the terms of reference for this engagement (see Annex 2 of this Report).

These procedures have been determined solely by the Contracting Authority and the procedures were performed solely to assist the Contracting Authority in evaluating whether the expenditure claimed by you in the accompanying Financial Report is eligible in accordance with the terms and conditions of the Grant Contract.

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 Financial Report.

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Beneficiary 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 125 440€.

The Expenditure Coverage Ratio is 91%. 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 the Final Financial Report of 22 February 2021.

We report the details of our factual findings which result from the procedures that we performed in Chapter 2 of this Report.

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 Contracting Authority in connection with the requirements as set out in Article 15 of the General Conditions of the Grant Contract. This report may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

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

The Contracting Authority may only disclose this Report to others who have regulatory rights of access to it.

This Report relates only to the Financial Report specified above 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,



Audit Company IFP LLC



Name of Auditor signing

Ashot Barseghyan

Auditor's address

53-34 Nikol Duman, Yerevan, 0028, Armenia

Date of signature 22.02.2021

1 Information about the Grant Contract and the Action

Main objective of the action is development and strengthening of reforms for better business environment through improved Public Private Dialog platforms and empowering of European Business Association (EBA) for advocating business rights.

Since the beginning of the project, corresponding actions and activities have been conducted to provide intense advocacy results of EBA. Particularly, activities directed toward internal capacity building of organization, membership structure and services improvement and development of the new relations with the new government representatives via structuring/improvements of current and new PPD platforms.

During the whole Project period, EBA has organized 34 PPD meetings and events with total participation of 794 representatives of private sector;

Ten B2B and networking/matchmaking events have been conducted by EBA for its members and 318 representatives of private sector have attended those meetings.

EBA members and partners conducted 7 (seven) particular meetings for EBA members (305 attendees).

Total number of attendees of EBA events during the whole project is 1417.

EBA staff attended more than 50 other meetings and events as invitees.

The **results of** the actions performed can be grouped in four outcomes:

Outcome 1 - "Improving lobby and advocacy instruments and PPD platforms"

EBA improved advocacy instruments by several ways: first, via internal capacity building of its staff and using strong capacity of its members, particularly by establishing new working groups and committees, and the second way is by creating a fruitful cooperation with representatives of a new government appointed after revolution in 2018. However, building public cooperation is very difficult process in Armenia due to the high flow of human resources almost in all sectors including public. EBA has started its activity since 2016 and within 4 year, there are three Prime Ministers have been changed with their whole staff. Ministers and deputy ministers are changing frequently. There is lack of institutional memory and succession. All projects and agreements achieved with the former government should be started from zero again, this is a big challenge not only for NGOs that were working with the government but for the whole business environment and especially for foreign investors that don't have so many connections and opportunities in Armenia to restart the process of negotiation and networking very quickly. Furthermore, the "Business Association" and "Advocacy" definition itself is something new in Armenia, it took several years to create the trusted and constructive relationship with the government and explain why they should cooperate with Chambers and Business Associations and during the Project period, EBA has started rebuilding that relationship almost from the scratch. EU Delegation's support was crucial due to the recognition and high respect to the European Institutions in Armenia.

During the Project period, EBA has conducted PPD events and meetings as well as activated its big network connecting companies with each other and with public sector. Especially during the pandemic 2020 EBA demonstrated high importance of its network and existing PPD platforms and could very quickly organize meetings and response the government's requests when businesses' opinion and support was needed.

Outcome 2 - "to strengthen EU Business sector in facilitating the market access of EU companies, especially SMEs, into Armenian market"

In order to strengthen business sector, it was necessary to understand main gaps, challenges, opportunities, and then only work for its improvements. For that purpose, EBA has conducted a market study in August 2019 <https://eba.am/auto-draft-2/>, details are presented in Activity 2.3 part of this report. The survey has been presented to EUD and has been disseminated via EBA channels, as well as published on the web page and social media.

The 2020 update of the survey tailored to the COVID-19 impact has been finished in September. Meanwhile, another small survey has been conducted in March 2020 <https://eba.am/wp-content/uploads/2020/03/EBA-Survey-Impact-of-COVID19-Outbreak-on-Businesses-in-Armenia-...pdf> The main purpose of the COVID outbreak survey was to reveal the impact of COVID-19 on business representatives operating in Armenia. The updated information is included in the final Market Exploratory Study report that was mentioned above.

EBA has also supported dissemination of questionnaires of its partners' Surveys, particularly EBRD BSO joint with Ministry of Economy of Armenia, Survey of EaP Civil Society Forum.

Started from July 2020 EBA is also selected as a partner institution for the Market Study of Berlin Economics that is commissioned by the Prime Minister and the Ministry of Economy of the Republic of Armenia and led by the German Economic Team, with organizational support from EBA and DWV, that will examine the reform landscape in Armenia in terms of its impact on investment and growth.

As a result, the study provides an assessment of the efficiency of the current reforms with regard to stimulating growth and investment, as well as recommendations for further reforms.

Survey reports conducted by EBA present the evolution in economic and business spheres for the past years in the area of customs, trade regulations, law enforcement, access to finance, from the standpoint of obstacles faced by the MSME companies in Armenia. Updated one will also include impact of COVID-19 and potential opportunities for businesses.

As of now, based on the initial information received from business representatives the most important issues and goals for business representatives are prevailing COVID-19 implications and to reach the appropriate level of stability both economic and political. Especially it is very relevant and important nowadays due to so many impediments that Armenia is facing now including COVID-19 pandemic, measures targeted into the "cleaning" of former authorities affiliated businesses and military situation with Nagorno-Karabakh. It is a big stress for business environment and investment climate in Armenia and it might last several years to recover from this turmoil.

There are also issues that are still on the top of priority for business representatives that are independent judicial system that still needs reforms and sustainable control of those reforms that are being implemented. Tax and customs systems need to be more transparent and clearer, at the same time constant changes and updates of legislation brings to its negative impact for planning and forecasting of future investments. Eurasian Economic Union legislation and CEPA still need to be clarified and presented to the public in a user friendly and understandable way. Moreover, awareness sessions on mentioned legal opportunities and updates should be organized on regular basis.

During the Project period EBA has conducted several meetings, three meetings with

high level public authorities has been conducted in the scope of "Strengthening EU Business Development in Armenia" project mentioned in the agreement, but all other meetings are directly related to the same activities for strengthening business development and investment climate in Armenia. Thus, the project financed by EU had its crucial role and impact to EBA's all activities and internal developments.

There is only one event (Customs and Transportation issues discussion/round table) that has been cancelled due to the Nagorno-Karabakh conflict escalated on 27th of September 2020. However, it is in the schedule and approved by the representatives of State Revenue Committee and it will be conducted as soon as the situation is stable in the country.

Outcome 3 - "To provide efficient exchange of information among private, public and civic sectors"

EBA ensures the exchange of information via its platforms, meetings, social media and other channels. Results and reports have been disseminated via EBA mail list, newsletters, social media and other platforms. Protocols of the meetings and events were published to the EBA web page as well as shared with all related parties. EBA is also continuously publishing legal updates on its web page.

During the Project period EBA has organized:

34 PPD meetings and events with total participation of 794 representatives of private sector;

Ten B2B and networking/matchmaking events have been conducted by EBA for its members and 318 representatives of private sector have attended those meetings.

EBA members and partners conducted 7 particular meetings for EBA members (305 attendees).

Total number of attendees of EBA events during the whole project is 1417.

EBA staff attended more than 50 other meetings and events as invitees.

EBA disseminated and collected a large amount of information among its networking of more than 1000 companies:

- new legal drafts requested from public sector to collect opinion of private sector,
- updated information of already adopted legislations,
- COVID-19 updates related to government support,
- Information, materials and studies of its members and partners,
- EBA has also supported to conduct studies of its partners by disseminating questionnaires and papers.

Outcome 4 - "To establish Foreign Investments Council under the President or Prime Minister"

In 2019 EBA initiated the idea of establishment of foreign investment council in Armenia. Main idea of the council was to have a Public Private Dialog Platform, where foreign investors' issues could be discussed, particularly competition, judicial system, rule of law, tax and customs issues and harmonization and implementation of CEPA as well as all other relevant topics and issues that are so important for foreign investors operating in Armenia.

There is no analogue of such PPD platform in Armenia, where foreign investors could voice their issues. All existing platforms cover the tax issues mainly from the accounting level. Thus, establishment of foreign investment council is very important from the prospective of foreign investment climate improvement and new investment

opportunities. Idea was supported by nine associations that are representing foreign investors in Armenia and corresponding MOU was signed with those who has joined the initiative, particularly: Armenian-German Business Association, Armenian-Italian Chamber of Commerce and Industry, Armenian-Polish Chamber of Business, Armenian-Swiss Business Development Association, International Chamber of Commerce, Armenian-Portuguese Chamber and some others. <https://eba.am/wp-content/uploads/2019/09/FIC-MOU-scan.pdf>

Name of Coordinator of the grant contract: European Business Association
Diana Sarumova **Yerevan**

Information about the Grant Contract	
Reference number and date of the Grant Contract	ENI/2018/399-571 03.10.2018
Grant contract title	Strengthening EU Business Development in Armenia
Country	Republic of Armenia
Coordinator	European Business Association Baghramyan Ave. 18, Yerevan 0019, Armenia
Beneficiary(ies) and affiliated entity(ies)	European Business Association Baghramyan Ave. 18, Yerevan 0019, Armenia
Start date of the implementation period of the Action	03.10.2018
End date of the implementation period of the Action	03.10.2020
Total [accepted/eligible] cost of the	125,440.00 EUR
Grant maximum amount	125,440.00 EUR
Grant coverage	87,69%
Co-financing amount	15,440 EUR
Total amount received to date by the Coordinator from Contracting Authority	Total amount received as per 03. 10.2020 99,000 EUR
Total amount of the payment request	11,000 EUR
Contracting Authority	NA
European Commission	Piotr Antoni Świtalski, Ambassador, Head of Delegation of the European Union to Armenia, 21 Frik Street, 002 Yerevan, Armenia Tel: +374 10 546494
Auditor	Ashot Barseghyan

2 Procedures Performed and Factual Findings

We have performed the following specific procedures listed in Annex 2A of the terms of reference for the expenditure verification of the Grant Contract ('ToR'):

1. General Procedures
2. Procedures to verify conformity of expenditure with the budget and analytical review
3. Procedures to verify selected expenditure

We have applied the rules for selection of expenditure and the principles and criteria for verification coverage as set out in Annex 2B (section 3 and 4) of the ToR for this expenditure verification.

The total expenditure verified by us amounts to € 112,119.57 and is summarized in the table below. The overall Expenditure Coverage Ratio is 91%.

	Expenditures incurred (in EUR)	Expenditures verified (in EUR)	Expenditures verified (in relative %)
1. Human Resources	72,600.40	68,833.17	95%
2. Travel	8,738.17	6,543.81	75%
3. Equipment and supplies	0	0	0%
4. Local office	10,127.73	9,970.81	98%
5. Other costs, services	21,455.96	16,567.61	77%
6. Other	10,204.17	10,204.17	100%
7. Subtotal direct eligible costs of the Action (1-6)	123,126.43	112,119.57	91%
8. Provision for contingency reserve (maximum 5% of 7, subtotal of direct eligible costs of the Action)	0.00	0.00	0%
9. Total direct eligible costs of the Action (7+8)	123,126.43	112,119.57	91%
10. Indirect costs (maximum 5% of 9, total direct eligible costs of the Action)	0.00	0.00	0%
11. Total eligible costs (9+10)	123,126.43	112,119.57	91%
12. - Taxes - Contributions in kind	0.00	0.00	0%
13. Total accepted costs of the action (11+12)	123,126.43	112,119.57	91%

We have verified the selected expenditure as shown in the above summary table and we have carried out, for each expenditure item selected, the verification procedures specified at point 3.1 to 3.7 of Annex 2A of the ToR for this expenditure verification. We report our factual findings resulting from these procedures below.

General Procedures

1.1 Terms and Conditions of the Grant Contract

We have obtained an understanding of the terms and conditions of this Grant Contract in accordance with the guidelines in Annex 2B (section 2) of the ToR.

No factual findings have arisen from this procedure.

We have obtained a copy of the original Grant Contract and we have obtained and reviewed the Report and concluded that it is in compliance with the Grant Contract.

1.2 Financial Report for the Grant Contract

We confirm that the Financial Report (FR):

- covers the Action subject of Audit as a whole;
- is prepared according to the model in Annex VI of the Grant Contract and;
- is in English.

1.3 Rules for Accounting and Record keeping

We confirm that the accounts of the beneficiary:

- are accurate and up-to-date
- are prepared according to the double-entry book-keeping system
- are easily identifiable and verifiable

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

The information in the FR has been reconciled to the Beneficiary's accounting system and it is included in the Beneficiary's trial balance, profit and loss statement and all other statements required by the local authorities.

1.5 Exchange Rates

The exchange rates used to convert the amounts from Armenian drams (AMD) to Euro is the actual exchange rate for conversion of funds received, as for the contribution amounts made by EBA, the average exchange rate calculated based on all conversions made was used. In addition, for expenses not paid as of the reporting date exchange

rate of the reporting date was used. Below is the table of exchange rates used:

Date	Exchange rate	Converted amount in EUR	Description
18/10/2018	551.00	54,335.00	Exchange rate of first inflow converted
23/12/2019	528.00	39,502.15	Exchange rate of second inflow converted
29/09/2020	565.00	5,088.85	Exchange rate of third inflow converted
-	546.86	-	Average exchange rate (Total inflow/Total expenses in AMD)
03/10/2020	583.5	-	Exchange rate of reporting date for expenses not yet paid

1.6 Simplified Cost Options

There are no simplified cost options.

2.Procedures to verify conformity of Expenditure with the Budget and Analytical Review

2.1 Budget of the Grant Contract

We performed analytical review of the expenditure heading in the Financial Report on which we verified that the budget in The Financial Report fully corresponds with the budget of the Grant Contract. All expenditures incurred were indicated in the budget of the Grant Contract.

No factual findings have arisen from this procedure.

2.2 Amendments to the Budget of the Grant Contract

There were no amendments to budget which require prior approval of the CA.

3.Procedures to verify selected Expenditure

We have reported further below all the exceptions resulting from the verification procedures specified at point 3.1 – 3.6 of Annex 2A of the ToR for this expenditure verification insofar as these procedures did apply to the selected expenditure item.

We have quantified the amount of the verification exceptions found and the potential impact on the EU contribution, should the Commission declare the expenditure item(s) concerned ineligible (where applicable taking into account the percentage of funding of the Commission and the impact on indirect expenditure (e.g. administrative costs, overheads)). We have reported all the exceptions found, including the ones for which we cannot quantify the amount or the potential impact on the EU contribution.

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. Except for the findings presented below

- a. All reviewed costs are actually incurred
- b. All costs occurred within the implementation period of the Action
- c. All cost items have been indicated in the action budget
- d. All costs were necessary for proper implementation of the Action
- e. All costs were recorded according to the terms and conditions of the GC, the local accounting requirements and the set cost accounting practices
- f. All costs are justified (there is sufficient documentation for the reviewed costs)
- g. All monetary values are in accordance with the underlying documents
- h. All costs have been classified under the correct headings and subheadings of the FR
- i. All procurement procedures have been done in compliance with the national law of the origin have been made according to the terms and condition of the GC

Factual findings are:

- The services received from First Outsourcing Company LLC in the amount of AMD 2,2 mln (EUR 3,770.35) were divided into three lines of the budget: 5.1 Publications (EUR 1,542.42); 5.7 Costs of conferences/seminars (EUR 1,456.73); 5.8 Visibility actions (EUR 771.21), however the scope of the services per invoice issued is to prepare advertising video and provide marketing services. Also, final deliverable of work performed was not provided to us.
- Expenses related to travel (budget line 2.1.1) and accommodation (budget line 2.1.2) received from PolAirtour in the amount of AMD 702 thousand (EUR 1,203.08), as well applicable per-diems (budget line 2.1.3) in the amount of AMD 478 thousand (EUR 873.88) was not actual incurred. Per management the travel was postponed to June 2021 due to Covid pandemic.
- Expenses related to purchase of computer in amount of AMD 673,000 (EUR 1,153.38) were included in budget line 4.3, however it is not intended under applicable budget line. It is not directly office supply but it was directed for office use instead of stationary and other costs that were in fact covered from other resources.
- Per financial report the amount of expenses is EUR 123,126.42, out of which by grant is covered 89.86% and by co-financing 10.14%, while per grant agreement financing is limited to 87.69%.
- Part of expenses (EUD was preliminary informed) are made in accordance with the article 9.4 of general conditions of the Grant contract and are not exceeding the limit. However, they are still not paid by the reporting date, will be paid based on all agreements that are in place after the final tranche of grant is received:

	<i>Supplier</i>	<i>Amount in AMD</i>	<i>Amount in EUR</i>	<i>Budget line/Description</i>
1	GrigService	673,000.00	€ 1,153.38	4.3 Consumables - office supplies
2	First Outsourcing	900,000.00	€ 1,542.42	5.1 Publications ⁹
2.1	First Outsourcing	850,000.00	€ 1,456.73	5.7 Costs of conferences/seminars ⁹
2.2	First Outsourcing	450,000.00	€ 771.21	5.8. Visibility actions ¹⁰
3	PolAirtour	422,000.00	€ 723.22	2.1.1 ticket
3.1	PolAirtour	280,000.00	€ 479.86	2.1.2 accomodation
4	Freda	232,000.00	€ 397.60	5.6 Financial services (bank guarantee costs etc.)
5	Macconi Association	500,000.00	€ 914.31	Office rent
5.1	Macconi Association	130,000.00	€ 222.79	4.4 Other services (tel/fax, electricity/heating, maintenance) for six months-october, november, december, january, february, march

3.2 Eligible Direct Costs (Article 14.2)

We have verified that all direct costs recorded under headings 1-6 of the FR are eligible as defined in Article 14.2.

3.3 Contingency Reserve (Article 14.6)

Provisions for the contingency reserve have not been used by the Beneficiary for the implementation of the Action.

3.4 Indirect Costs (Article 14.7)

There are no indirect costs.

3.5 In kind contributions (Article 14.8)

There have been no in kind contributions included in the FR.

3.6 Non-eligible costs (Article 14.9)

We have not verified costs which could be defined as non-eligible costs in our review.

3.7 Revenues of the Action

Final sources of funding

		Amount
		EUR
Applicant contribution		-
Other contributions (other Donors etc)		
<i>Name</i>	<i>Conditions</i>	
EUD	Grant Contract	110,000.00
Co-financing by EBA	EBA should cover 12.31% of eligible cost accepted by EUD	15,440.00
Revenue from the Action		125,440.00
In-kind contribution		-
Interests from pre-financing		-

The Contracting Authority (CA) finances a maximum of 87.69% of the total costs of the Action. The rest of 12.31% of the total costs should be covered by EBA using membership fees.

Annex 1 Financial Report for the Grant Contract

Interim financial report: period (03/10/2018-02/10/2020)	Contract No ENI/2018/ 399-571									
	Implementation period of the contract (03/10/2018- 02/10/2020)									
	Budget as per contract/addendum				Reallocation	Expenditure Incurred				
	Unit	# Units	Unit value (in EUR)	Total Cost (in EUR)	Reallocation allowed (Article 6.4 of the General Conditions)	# Units	Unit value (in EUR)	Total Cost (in EUR)	Cumulated costs (before current report) (in EUR)	Cumulated costs (from start of implementation to present report included) (in EUR)
	(a)	(b)	(c)=a*b		(a)	(b)	(c)=a*b	(d)	(f)=c+d	
1. Human Resources										
1.1 Salaries (gross amounts, local staff)										
1.1.1 Technical	Per month	19.2	2125	40,800		19.2	2125	40,800	41,165.74	
1.1.2 Administrative/ support staff	Per month	19.2	675	12,960		19.2	675	12,960	13,061.44	
1.1.3 Legal/Lobby and advocacy (100 %)	Per month	24	760	18,240		24	760	18,240	18,373.23	
1.2 Salaries (gross amounts, expat/int. staff)	Per month									
1.3 Per diems for missions/travel										
1.3.1 Abroad (staff assigned to the Action)	Per diem									
1.3.2 Local (staff assigned to the Action)	Per diem									
1.3.3 Seminar/conference participants	Per diem									
Subtotal Human Resources				72,000			72,000		72,600.40	
2. Travel										
2.1.1 ticket	Per flight	4	550	2,200		4	550	2,200	2,188.85	
2.1.2 accomodation	Per day	16	112.5	1,800		16	112.5	1,800	1,795.35	
2.1.3 per diem	Per day	16	115	1,840		16	115	1,840	2,559.61	
2.2 Local transportation	Per month	24	100	2,400		24	100	2,400	2,194.35	

6.1 International experts related to business environment improvement and EBA internal capacity building (tax, customs, public procurement (GSP+, REX, other)	<i>Per day</i>	20	500	10,000		20.00	500	10,000		10,204.17
Subtotal Other				10,000				10,000		10,204.17
7. Subtotal direct eligible costs of the Action (1-6)				125,440						123,126.42
8. Indirect costs (maximum 7% of 7, subtotal of direct eligible costs of the Action)										
9. Total eligible costs of the Action, excluding reserve (7+ 8)				125,440						123,126.42
10. Not applicable										
11. Total eligible costs (9+10)				125,440						123,126.42
12. - Taxes - Contributions in kind										
13. Total accepted costs of the action (11+12)				125,440						123,126.42

 Ms. Diana Sarumova
 Executive Director
 European Business Association

Annex 2 Terms of Reference Expenditure Verification

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 European Business Association ("the Coordinator") agrees to engage IFP LLC ("the Auditor") to perform an expenditure verification and to report in connection with a European Union financed grant contract for an external action concerning ENI/2018/399-571 Strengthening EU Business Development in Armenia (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.

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 **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 Beneficiary. 'Auditor' 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 Auditor confirms that he/she meets at least one of the following conditions:

- The Auditor 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 Auditor 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 Auditor 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 Auditor 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).

Subject of the Engagement

The subject of this engagement is the final Financial Report in connection with the Grant Contract for the period covering 03th October 2018 to 03th October 2020 and the action entitled Strengthening EU Business Development in Armenia, the 'Action'. Annex 1 to these ToR contains information about the Grant Contract.

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.

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 Auditor 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 Auditor 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 Auditor and draws its own conclusions from these factual findings.

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 Contracting Authority 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.

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

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.

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 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.

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 Auditor and the factual findings reported by the Auditor.

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 Auditor to European Business Association within 90 working days after the day of signature of these ToR.

Other Terms

The fee for this engagement shall be AMD 815,000.

All expenses and allowances (e.g. travelling, other) and other relevant expenses are included in the fee.

- 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 3** Model report for an expenditure verification of an EU grant contract

For the Coordinator:

Diana Sarumova, Executive Director
11 November 2020

For the Auditor:

V. Margaryan, Director
11 November 2020