

Specific Terms of Reference

DCI-ALA/2012/294-140

Residual Error Rate Study

We thank you in advance for a prompt answer to the present request for service, in the form of a proposal (estimate) following the terms and conditions of the 2014 Audit Framework Contract (AFC) within the next 10 working days counted from the date of dispatch of the request by the Commission.

The specific engagements will be carried out on the basis of global price contracts covering all costs. There will be no reimbursable costs in addition to the global price. No advance payments are envisaged under the 2014 AFC. Contractors may request clarifications by e-mail until 3 working days before the end of the 10 working days period. The Commission's Audit Task Manager will send as soon as possible clarification requests and replies to all contractors simultaneously.

SINCHI INSTITUTE is not going to provide training for the team as per the methodology, so by submitting an offer you confirm your understanding of the nature of the assignment and your ability to perform it.

1. Background

The SINCHI INSTITUTE was created under Law 99 of 1993 as a public non profit civil entity, notwithstanding which it is subject to private law, organized pursuant to the provisions of Law 29 of 1990 and Decree 393 of 1991; that it is partnered with the Colombian Ministry of the Environment (currently under the Spanish acronyms MADS, with full administrative autonomy, legal capacity and its own patrimony.

That pursuant to the provisions of Decree 1603 of 1994, the SINCHI INSTITUTE's main purpose is "(...) to carry out scientific and technologic studies that improves the population's welfare, preserves the environment and uses natural resources sustainably and to provide scientific and technical support to the Ministry of the Environment in carrying out its duties." Additionally, Article 26 of the above mentioned Decree states it has among others, the following functions: (...) Obtain, store, analyze, study, process, provide and disclose basic information concerning the biologic, social and environmental reality of the Amazon in order to manage and use of the renewable resources and the region's environment. (...) Research the biologic and ecologic reality of the Amazon and suggest alternate sustainable development models based on the use of its natural resources.

The operational environment of European Community external aid is characterised by the:

- geographical dispersion of activities;
- high number of operations and associated financial transactions;
- diversity of partners and beneficiaries (ranging from small local NGOs to international organisations e.g. the United Nations) with their diverse management and control capacities;
- wide variety of cooperation instruments (traditional projects, budgetary support, sectoral approaches, contributions to global instruments, etc.), each with their own comprehensive financial rules.

The level of risk prevailing in developing countries is also high due to their geo-political, social, institutional and administrative environment, frequently associated with security and instability problem

Substantive testing was performed as regards the project “Modelos prácticos de producción piscícola de consume humano y uso ornamental para el desarrollo de la zona de integración fronteriza de Perú y Colombia”. The contract reference was DCI-ALA/2012/294-140 signed by the Delegation of the European Union in Perú and CAN and fieldwork was carried out at the beneficiary PEDICP in Perú and partner in Colombia SINCHI INSTITUTE.

In the framework of the RER 2017 exercise the grant contract DCI-ALA/2012/294-140 had been selected, by applying the RER methodology to the grant contract DCI-ALA/2012/294-140 an error of 106.667,21 EUR was identified. The debit note No. 3241811472 for the amount of 91.801,60 EUR had been issued following this error.

At the request of the beneficiary PEDICP and SINCHI the CAN and the European Union have authorized a new revision of the grant contract DCI-ALA/2012/294-140. For the review it is necessary to completely verify (100% without sampling) all the transactions reviewed in the framework of the RER 2017 that have been the basis of the error identified for the grant contract DCI-ALA/2012/294-140 (Annex IB), applying the RER methodology (Annex 3) to finally reach a conclusion about the error originally identified

2. Purpose of the order

The purpose of this order is

- to apply the methodology and manual to estimate the residual error rate after contract closure and completion of the audits on payments for the lines in Annex IB
- to report results of the findings in different breakdowns;
- to update the RER in-depth analysis as defined by the Commission;
- to produce a risk analysis as defined by the Commission.

3. Tasks to be performed

Within the confines of the overall Commission internal control framework, apply the methodology of estimation of the residual error rate on payments for all management modes under both EDF and General Budget by sampling of *up to all transactions* from the contract DCI-ALA/2012/294-140.

The verification will be performed at the Institute SINCHI headquarters in Bogotá D.C., (Calle 20 #5-44)

Residual error rate is understood as the ratio of the amount of ineligible expenses remaining undetected, to the total amount of payments relating to contracts closed in a given 12-month- period. A thorough examination must be performed as to whether the contracts chosen for examination will still be subject to checks, verifications or audits and if they were subject to analysis in previous RER studies.

The RER study results also have to be reported in an Excel sheet that will be predefined by the European Commission.

In order to achieve this reporting result, an update of the study of the results of the RER studies should be made (see in Annex 1 the example for 2012-2014). This involves an in-depth analysis of the findings in the previous RER studies, by type of error, management mode and type of legal instrument.

In order to gain further insight into a possible targeted reservation, a risk assessment such as the one performed for findings of the European Court of Auditors (see Annex 2), but based on the previous RER studies, should be made. The purpose of this risk assessment is to assess whether contracts in certain ICTs are more prone to errors than others, based on a breakdown by ICT of the frequency of error and the error rate.

The methodology and way to proceed are defined by attached documents (methodology and manual). The contractor will communicate directly with EU Delegations, SINCHI INSTITUTE headquarters staff and beneficiaries such as governments, non-governmental organisations or bodies implementing the contracts co-financed by the EU (NGOs, UN bodies, World Bank Group, etc.) in order to complement the information and to arrange, as necessary, on-the-spot checks.

Whenever the work on a transaction affected by error may be considered closed, the contractor will provide the beneficiary or partner concerned, as well as the Delegation or Unit in charge of the contract, with the full description of the error found and the financial consequences. The contractor will then invite both parties to react to the findings within a 10-day deadline. The reactions from the Commission services or the beneficiaries or partners concerned will then be taken into account in the final decision on the error.

Methodological adaptations may be necessary during the course of the study, depending on the experience gained from the 2016 RER study. These changes will be agreed in the course of the study between the contracting partners.

3.1. Requested deliverables

- Draft final RER report on 21 November 2019 (referring to all transactions in Annex IB). For this report the analysis should be finalized for all transactions (closed without error, error finding or estimation).
- Analysis of RER results (as defined by Annex 1) by 29 November 2019;
- RER risk analysis (as defined by Annex 2) by 29 November 2019.

In the interim report, and especially in the final report, the contractor will provide a clear description of each error identified, notably detailing:

- The type of contract concerned;
- The type and causes of errors;
- A clear explanation of the errors, including a precise identification of the items and amounts affected by error. In the case of missing documentation, the contractor will provide a comprehensive list of pieces of evidence that are missing.

Reporting deadlines should be strictly adhered to as the information is needed by the Delegation of the European Union in Perú. Any delay would be harmful and can put into question the main purpose of the exercise. Therefore, liquidated damages as per Article II.12 of the General Conditions of the 2014 AFC will be strictly applied.

The contractor shall submit an invoice for an interim payment equal to 50 % of the total after approval of the draft final RER. The contractor shall submit an invoice for payment of the balance after approval of the final report.

3.2. Estimated expertise required

See Annex 6

4. Reference tools

See Annexes in section 8.

5. Absence of any conflict of interest

The stipulations in Article II.4 of the general conditions of the 2014 AFC apply.

The methodology and manual for the study to be executed have been prepared under separate contracts. The purpose of the manual is to ensure that any appropriately qualified auditing firm has all the necessary information to be able to perform the residual error audit as specified in the methodology.

6. Schedule of reports – terms for approval, structure and content

The expected output as specified under 3.1. should be presented with the:

draft final 2017 RER report at the **latest on 21 November 2019**,
the **analysis of RER results** at the **latest on 29 November 2019** and
the **RER risk analysis** at the **latest on 29 November 2019**.

7. Eligibility and evaluation criteria

In view of the specificity of the assignment, only offers with a clear mention that the proposed team understands the attached methodology study and manual and is able to apply them correctly and autonomously will be considered eligible.

Your offer should include:

- a cover note explaining your understanding of the assignment;
- details on the role and responsibilities of each expert in the team;
- experts' CVs;
- presentation of a timetable;
- detailed budget envisaging also adequate number of field visits (one visit in Colombia)
- team composition allowing flexibility with regard to language skills (only auditors who will have an active involvement in the study should be nominated).

All the offers that fulfill the requirements of Annex III will be considered eligible. As the methodology as such is pre-defined by the Annexes to this request, it is not specified as a separate criterion.

There for the only criteria that will be considered is budget offer. Contract will be signed with the lower value proposal.

8. Annexes

Annex 1: RER analysis 2012-2015

Annex 2: Risk assessment for ECA findings

Annex 3: Methodology and Costing for Approaches to Determining the Residual Error Rate for EuropeAid

- Annex 4: Manual for measuring the residual error rate for EuropeAid
- Annex 5: Pilot study to test the methodology to determine the residual error rate for DG DEVCO
- Annex 6: Estimated expertise required
- Annex 7: Contract DCI-ALA/2012/294-140
- Annex 8: Debit note No. 3241811472
- Annex 9: Transacciones auditables Instituto Sinchi
- Annex 10: DEVCO RER Final report for contract DCI-ALA/2012/294-140 Instituto Sinchi
- Annex 11: Transacciones auditables PEDICP
- Annex 12: DEVCO RER Final report for contract DCI-ALA/2012/294-140 PEDICP