

TERMS OF REFERENCE

FINANCIAL AUDIT

The Financial Information of the project/program shall be audited in accordance with International Standards on Auditing (ISA 805) "Special Considerations Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement".

1. Fundamental principles

1.1 The financial audit of projects ("financial audit") is to be carried out by an independent auditor ("the auditor"), having the required professional competence and experience (e.g. Certification by National Audit Oversight Authority), and in accordance with International Standards on Auditing (ISA).

1.2 These Terms of Reference ("TOR") define the mandate of the auditor in connection with the financial audit of projects/programs of the partner, financed by the Federal Department of Foreign Affairs (FDFA). The financial audit is based on the professional requirements and guidelines governing the professional work to be undertaken by an auditor.

1.3 In planning, conducting and reporting on the financial audit, the auditor has to follow the ISA 805.

In addition, the relevant standards of the local accounting profession as well as the local legislation on accounting and reporting in force in the country in which the financial audit is carried out need to be taken into consideration by the auditor.

2. Overall principles of the procedures to be performed

The auditor is required to plan, execute and report on the financial audit engagement in order to conclude on the following matter:

- **2.1 Principles of orderliness (financial regularity/reporting)**

Furthermore, the auditor is required to assess whether the partner has adequate policies and procedures in place relating to the following matters (those matters are not covered by the audit engagement in accordance with ISA as mentioned above):

- **2.2 Existence, adequacy and effectiveness of the Internal Control System (ICS)**
- **2.3 Conformity with the project objectives and adherence to the contract conditions**
- **2.4 Economical conduct of business and effective use of financial resources**

In order to respect these principles, the auditor has to analyse the questions mentioned in the annexed Questionnaire (Annex 1). While item 2.1 will be reflected in the audit report prepared in accordance with ISA, items 2.2 to 2.4 will be reflected by the answers of the auditor to the Questionnaire in the Annex 1. Recommendations to the management shall be formulated according to Annex 2 (Management Letter).

3. Documents of reference

The following documents and matters are to be considered by the auditor as basic references for performing the financial audit:

Legislation: National law

Project/program: Agreement between FDFA and the partner relative to the project;
Project Document / TOR;
Budgets, financing plans, programs of project activities;
Project management procedures;
Any other documents concerning the project/program.

Accounting: Accounting documents subject to the financial audit;
Financial and operational reports concerning the project/program.

Auditor: Prior internal and external audit reports of the partner;
Any other information requested from the partner by the auditor.

4. Planning the financial audit

The auditor shall adequately plan the financial audit engagement well in advance of the work and ensure the execution of the financial audit of highest professional quality in an economical and efficient manner as agreed upon in the respective mandate in the name of the partner and the auditor.

On the basis of the information received during the planning phase, including the auditor's risk assessment, the auditor shall determine:

- the type of transactions to be audited and the audit methods (full audit or sample selections);
- the type of physical counts or examination and the sites to be selected;
- the number of site visits to be planned.

The auditor ensures continuity in the audit approach of the financial audit engagement and the audit team, even if there is a change in the leader of the engagement team from the prior year.

5. Place of financial audit

The financial audit is to be carried out at the project/program environment (administrative offices and/or decentralised sites, if applicable).

6. Management representation of full disclosure

The auditor shall obtain a management representation letter signed by the management of the partner organization, certifying:

- a) The acknowledgement of the organization's responsibility for the keeping of accounts and financial documents that are correct, complete, fair, representing the true facts, in conformity with the objectives of the project, the documents of reference (description of the project, contracts, budgets, etc.) and national legislation;
- b) That all accounting records, supporting and other documents, minutes and any other pertinent information necessary for the audit be at the disposal of the auditor;
- c) The completeness of information concerning property and goods;
- d) The completeness of information concerning financing received or due and own financing concerning the audited period, for the project being examined;
- e) The availability of any information and explanations, either orally or by written confirmation, which might be required by the auditor in the execution of his mandate;
- f) In the case of contributions to local NGOs, the declaration has to certify the completeness of information concerning financing received or due and own financing concerning the audit period, for the project being audited **and** for the examination of the consolidated financial statements of the organization. The consolidated financial information, including balance sheets and profit and loss statements of the project are to be attached to the declaration and form an integral part thereof. This declaration shall be provided together with the financial audit report.

7. Detailed financial audit procedures

Appropriate audit procedures are to be applied by the auditor in order to form a conclusion on the matters outlined below. These procedures applied, either on a full coverage or a sample selection basis may include: controls, checking, evaluation, inspection, interview, analysis and other audit techniques. When selecting the audit procedures, the auditor shall give consideration to the results of his risk assessment (during planning stage and during the course of the audit work).

Accordingly, the auditor must define and carry out suitable audit procedures in order to obtain an overview of the aforementioned aspects before the auditor assesses the individual findings and reaches a final independent opinion on the audit.

The auditor is expected to select and apply any other audit procedures that the auditor may consider necessary in the professional execution of the financial audit engagement.

Upon receipt of the financial audit report, the FDFA or any third persons designated by the FDFA reserve the right to request other audit procedures to cope with the change in circumstances in the project or of the organisation of the partner.

In addition, in order to respect the principles mentioned under Art. 2 above, the auditor has to analyse the questions in the annexed Questionnaire (Template Annex 1). Any answers with “no” have to be taken up as recommendations in the Management Letter (Template Annex 2).

8. Closing meeting

After the completion of the financial audit engagement, but before leaving the project or the premises of the partner, the auditor shall hold a closing meeting with the persons responsible for the project/program (directors) and the staff responsible for accounting and reporting. The meeting shall address the results of the audit, discuss major weaknesses in the project, administrative and financial management (including the deficiencies of individual staff members) and propose recommendations to improve the project management, the accounting procedures and the internal control system (ICS).

9. Financial audit deliverables

The audit report of the auditor shall provide an opinion on the financial information of the partner as per ISA (Template Annex 3).

The answers to the Questionnaire (Template Annex 1) and recommendations to the management (Management Letter according to Template Annex 2) as well as the management representation letter shall be provided as separate deliverables together with the audit report.

9.1. Currency and language of the financial audit report

The financial information contained in the financial audit report of the auditor is to be expressed in the currency provided for in the contract. The financial audit report of the auditor and all other documents resulting from the financial audit engagement must be prepared in English.

9.2. Signature

The financial audit report is to be signed by the leader of the audit team. The financial reporting subject to audit shall be signed by a representative of the management of the partner.

Place and date: _____

For the partner: _____

For the auditor: _____