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## TERMS OF REFERENCE FOR A FINANCIAL, AUDIT

The Strengthening Resilience in Agriculture, Livelihoods and Markets through  
Local Institutions in Mundri and Koch (STREAM) programme (Phase 1)

Agreement number(s):	N° CSS1002 01 Z
Entity subject to the audit:	Mercy Corps (MC) & Active Youth Agency (AYA)
Country:	South Sudan
Contracting Authority:	AFD
Provisional audit contract conclusion date:	30th Sept. 2023
Period covered:	01st December 2021 to 31st January 2023

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# 1. Audit Context, Objectives and Scope

## 1.1 Context

### 1.1.1 Presentation of AFD

[AFD is a central actor in France’s development policy and supports States, companies, local authorities and NGOs. It builds synergies with them to catalyze, feed into and disseminate innovative solutions that benefit people. Through its network of 85 agencies, AFD operates in 108 countries, where it is currently financing, monitoring and supporting over 2,500 development projects. ]

### 1.1.2 Presentation of the Project / Programme

Additional information about the Project / Programme is available in Annex 4.1

- With AFD’s funding support, Mercy Corps will supplement the Swiss Agency for Development and Cooperation-funded STREAM programme (Strengthening Resilience in Agriculture, Livelihoods and Markets through Local Institutions in Mundri and Koch), leveraging the 500,000 EUR grant as co-funding for the first phase of STREAM.
- AFD agreement signed on the 27<sup>th</sup> July, 2022, will contribute to the STREAM programme’s overall goal that vulnerable households, youth and women in Mundri East, and Mundri West Counties in South Sudan have improved well-being making use of the skills, knowledge and enabling environment facilitated by the Programme. The Phase 1 of the STREAM Programme will focus on one key objective: to improve food security of 6,350 households through enhanced gender equitable market access and increased agricultural production and off farm and non-farm livelihood opportunities. The first phase of the STREAM program is expected to last two years and 2 months, from December 1st, 2020 to January 31<sup>st</sup> , 2023. The AFD grant will be implemented over twelve months, from December 1st, 2021 to January 31<sup>st</sup> , 2023, thus overlapping with the last year of implementation of Phase 1.

The AFD grant will be used for the following specific interventions:

1. Support to the development and scaling up of honey production – modernising honey production through introduction of modern beehives and honey processing techniques including branding and marketing;
2. Support to the development and scaling up of lulu oil production, branding and marketing (organisation and capacity building of honey and lulu cooperatives);
3. Support to the introduction of improved farming and post-harvest practices, and value chains (tillage- animal traction, post-harvest processing, storing and marketing of food grains and other farm produce) ;
4. Strengthening agriculture extension (training of the County Agriculture Department (CAD) staff and lead farmers mainly on cooperatives);

5. Support to Self Help Groups through grants to enhance group common fund and their savings and credit activities aimed at economic empowerment of women.

The overall STREAM programme covers 10 payams in the three counties of Mundri West, Mundri East and Koch Counties, reaching 6,350 households or 38,100 individuals. The proposed project, with AFD funds would mainly focus on the eight payams in Mundri West, and Mundri East.

The selected interventions including crop production groups, cooperative groups, cash for work, Self Help Groups, youth vocations, honey and lulu producer groups will follow a set of selection criteria documented and agreed with the community, youth, women and group leaders. Among the key criteria will include a person's willingness, interest and ability to participate in the select activities. The criteria will also take into consideration the vulnerabilities existing within the communities as per the interventions planned. For example, the participants in the honey intervention will obviously be those households that are already involved in honey production in some way, and those who would want to but have been unable to undertake it due to lack of resources. Those who collect lulu nuts will be targeted for the lulu interventions. The programme will focus on prioritising the youth and women among these targeted participants. The Self Help Groups, on the other hand are purely voluntary in terms of membership and members come together based on kinship and affinity factors with shared concerns. While Mercy Corps will not stop anyone from wanting to form and work as an SHG, critical grant support will be provided to groups whose members are poor in addition to other criteria of good functioning.

Mercy Corps' localisation approach has a starting point of partner, community and other stakeholder input throughout the project cycle, from design to implementation to acting as a critical player in sustainability. As part of this effort, Mercy Corps has worked with a Mundri-based NGO – Active Youth Agency in designing the STREAM Programme. Mercy Corps and AYA have been in mutual discussions exploring joint programming options since 2019, and since December 2020 as a formal partner in the implementation of the STREAM programme. Mercy Corps' partner selection includes an initial assessment of the partner technical, operational, financial, and human resource capacities and gaps. This analysis helps Mercy Corps determine the areas of potential support needed for local organisations to meet both Mercy Corps and donor compliance.

Active Youth Agency (AYA) is among the oldest youth organisations in South Sudan. Over the past 15 years, AYA has collaborated with more than 12 partner organisations and implemented 15 community projects, including in the areas of health, education, FSL, child protection and women's empowerment. AYA is currently working in Greater Mundri Counties including Mundri East and West, as well as Western Bahr-el Ghazal, and Central Equatoria State, implementing projects funded by South Sudan Humanitarian Fund (SSH-F-UNOCHA) and IOM. AYA has strong working relationships with the Ministry of Agriculture (MoA) at State Level, Ministry of Gender, Child and Social Welfare, at National and State Level, Ministry of Humanitarian Affairs and Disaster Management and Peace Commission of South Sudan.

AYA will be responsible for community level efforts, helping Mercy Corps connect with community networks, ensuring the STREAM programme meets its objectives and further helping drive sustainable improvements. In particular, AYA will be responsible for community mobilisation and community organising efforts. Activities include cascading of

key training, supporting monitoring, evaluation and learning activities and building capacity of key groups, including Self Help Groups.

Funding from AFD will co-finance the STREAM programme. Mercy Corps has identified clear deliverables that will be funded by these grants, while personnel and other operational costs are allocated on a pro-rata basis. Costs for this programme will include staff time and materials for market assessments; price monitoring; forming and capacity building collective rural organisations; training county Agriculture Department staff; facilitating access for farmers to key inputs to mitigate post-harvest losses; supporting cooperatives to construct dry storage facilities; supporting farmers to produce and market lulu and honey; grants to self-help groups, for working capital; financial support to cooperatives to enable seed multiplication, and for young people to start tillage services; support to carpenters to produce modern beehives, and communities mobilised to rehabilitate communal infrastructure. Budget is allocated to M&E, including post-distribution monitoring, final evaluation and the community accountability system. Key staff supported include the programme manager and food security technical specialist, CARM specialist, M&E, agriculture and institution building officer, finance and logistics officers. Operational costs for implementation and oversight in Mundri and Juba, including warehouse costs, security, communications, audit, vehicle running costs, and provision for indirect costs recovery.

#### FINANCING PLAN (in EUR)

Description	Dec. 21 - Jan. 23	AFD Total Budget	% of Grand Total	SDC+ Other CoFi	Total Budget All Sources
Activities/programme	264.915,73	264.916	53%	991.357	1.256.273
Human resources	130.427,75	130.428	26%	799.998	930.426
Operating costs	36.001,57	36.002	7%	292.536	328.537
Monitoring/evaluation	13.734,19	13.734	3%	149.343	163.077
Stock-taking/lessons learnt	-	-	0%	25.641	25.641
Project-related communication activities	3.674,01	3.674	1%	27.154	30.828
Audits	5.128,21	5.128	1%	13.675	18.803
Safety	4.834,15	4.834	1%	29.007	33.841
<b>SUBTOTAL, DIRECT COSTS</b>	<b>458.715,60</b>	<b>458.716</b>	<b>92%</b>	<b>2.328.712</b>	<b>2.787.427</b>
Miscellaneous and contingencies (maximum 10% of direct costs subtotal)	-	-	0%	-	-
<b>TOTAL, DIRECT COSTS</b>	<b>458.715,60</b>	<b>458.716</b>	<b>92%</b>	<b>2.328.712</b>	<b>2.787.427</b>
Administrative costs (maximum 10% of direct costs total)	41 284,40	41 284	8%	186 297	227 581
<b>GRAND TOTAL</b>	<b>500 000,00</b>	<b>500 000</b>	<b>100%</b>	<b>2 515 009</b>	<b>3 015 009</b>

- The Programme will be implemented under the overall supervision of the Country Director and the Director of Programmes. A dedicated Programme Manager (international) with Agronomy background and long years of experience in Market Systems Development and Value chains is in place and is responsible for the day-to-day management of the STREAM programme. The Programme Manager is supported by a Project Manager (national), an FSL

Officer and an Institutions Building Officer. These officers along with their assistants provide all relevant technical support to the programme. They work closely with the AYA team, which is headed by a Programme Coordinator. AYA team will be responsible for the actual implementation of all interventions and MC team will work closely with the AYA team to ensure smooth implementation of the programme. The MC team in Mundri has an M&E officer who is supported by the national M&E Manager in carrying out all programme monitoring functions. This team is ably supported by the operations, finance and HR teams from Juba, who have representatives in the Mundri team to ensure appropriate policies and procedures related to procurement, HR practices and financial management are applied and adhered to. The following organisational chart provides an overview of the human resources engaged partly or fully in the implementation of this programme.

The leadership of Mercy Corps and AYA meet on a regular basis to get an overview of the programme and understand if there are any issues in the implementation, especially issues related to the joint programme implementation. The meetings happen both in the field in Mundri as well as in Juba. Finance and other counterparts also meet to review their relative functions, which helps in identifying issues and addressing them in a timely manner.

Mercy Corps, and AYA have set up Programme Advisory Committees (PACs) in Mundri West and Mundri East counties comprising stakeholders from local authorities, chambers of commerce, progressive farmers, etc. These PACs act as advisory bodies and the Mercy Corps/AYA programme team prepares and presents reports to the PAC for feedback. The PACs meet on a quarterly basis and deliberate on the progress made by the programme and offer feedback. The programme also has provision for the PAC to make field visits and provide feedback and comments to keep the programme on course.

Mercy Corps has an established Community Accountability and Reporting Mechanism that includes multiple channels for feedback for the purposes of safeguarding, the detection and prevention of fraud, to support the commitment to do no harm, by identifying unforeseen effects of the programme implementation and targeting. These are used to support adaptive management through reflection and learning. From January 2021, Mercy Corps' agency-wide CARM policy has come into force, to ensure minimum standards for accountability in our programming. These standards are: having a dedicated CARM focal point, budgeting for CARM in our programming, having country specific CARM Standard Operating Procedures adopted; each programme having at least three feedback channels (be that a phone number, comments box, face to face report to monitoring staff etc.) All feedback must be documented and stored in a CARM database; feedback is classified according to nature and this classification is verified (this allows the escalation of more urgent concerns); appropriate action is taken based on the grade of feedback; all feedback from the top two grades of severity of concern, is shared with Mercy Corps centralised Integrity Hotline and ethics team and informant identity protected; and the feedback loop is closed for all non-anonymous feedback.

In addition to Mercy Corps' diligence process and joint monitoring work, Mercy Corps and AYA have a partnership agreement under the existing STREAM programme, which is attached as an additional annex. This will be amended if this proposal is funded, but it is included as an illustration of the terms of agreement that Mercy Corps uses.

### 1.1.3 Context of the Audit

No later than three (3) months from the date of delivery of the certificate referred to in subparagraph (i), a final audit report of the Project Account (the “Final Audit Report”), carried out by an independent and reputable auditing firm which has been appointed by the Beneficiary, subject to the Agency’s no-objection on the terms of reference of the audit mission and the appointed auditing firm. All audit costs shall be or applied against the funds of the Grant. The Beneficiary shall ensure that the auditing firm verifies that the Advances made under the Grant and paid into the Project Account have been used in accordance with the terms and conditions of this Agreement.

These TOR will form an integral part of the contract between the Contracting Authority (CA) and the auditor.

## 1.2 Audit Objectives

The objectives of this audit are to enable the auditor to express a professional opinion on whether:

- **the financial statements**<sup>23</sup> of the Project / Programme present fairly, in all material aspects, the expenditure actually incurred and revenue actually received for the Project / Programme for the period covered by the audit;
- the funds allocated to the Project / Programme have, in all material aspects, been used in conformity with the applicable contractual conditions; the expenditure is compliant with the rules of sound financial management, assessed notably in the light of eligibility criteria (see Annex 4.2 – Nomenclature of Findings and Misstatements); The REP (or the agency) must systematically escalate to DCO auditor’s findings falling into Section 9 “Irregularities” of Annex 4.2.
- **the internal control system** set up and operated by the Entity for the purpose of managing risks to the achievement of the objectives of the Project, was suitably designed and operated effectively in the period covered by the audit;
- **contracts** have been awarded in accordance with applicable rules and in accordance with the principles of economy, efficiency, transparency and fairness<sup>4</sup>, **and in compliance with AML/CFT due diligence requirements**;
- contracts have been performed in accordance with **technical** requirements and specified standards.

The auditor should also provide recommendations on the various aspects of the audit.

## 1.3 Scope (or Extent) of the Audit

### 1.3.1 Contractual Conditions

- Financing agreement, and addenda
- Approved Budget
- AFD environmental and social complaint – Management mechanism Rules of procedures



- FP3 Policies and procedures
- NOL FP3 Policies and procedures
- Statements of integrity
- Workplan

### 1.3.2 Period(s) Covered

The audit will cover the period from 01st December 2021 to 31st January 2023.

### 1.3.3 Financial and Volume Data<sup>5</sup>

- Financial and volume data for the period covered by the financial component of the audit is provided below
- budget for the period – EUR 500.000,00
- Expenditure amount implemented over the period – EUR 500.000,000
- No dedicated account was opened for this programme.

Data for the audit of the internal control system include is provided below:

- staff allocated to the Programme;

<b>Position in Budget</b>	<b>Staff Name</b>
Country Director	Mercy Gichuhi
Finance Director	Robina Jowan
Security Manager	Emmanuel Ogutu
Program Director	Nelson Ochieng Owange
STREAM Programme Manager	Keneth Aguret
NATIONAL STAFF	
<b><i>Juba Program Staff</i></b>	
M&E Manager	Laki Gideon
Roving Site Engineer	#N/A
M&E Officer	Nyuon Moses
<b><i>Juba Operational Staff</i></b>	
National Operations Manager	Simon EdwardBonis
Finance Manager	Tabu Cicilia Johana
Senior Finance Officer	Izaru Alfred
Finance Officer	#N/A
Finance Assistant	Lilliane Baatio
HR Manager	Bob David Andrew
Admin/HR Officer	Lindrio Longa Pamella & Atto Grace
Logistics Officer	Juma Simon Lino
Logistics/Ware house Assistant	Mawa Manas
Procurement Officer	Robert Lubang
Procurement Assistant	#N/A

<sup>5</sup> Remove the items corresponding to the non-selected modules.

Sr. IT System Administrator	Joseph Achuil Boi
Drivers (3)	Denis Sokiri, John Keffa & Justin Kenyi
Cleaner	Mary Naumba
Security Officer	#N/A
<b>Mundri Program Staff</b>	
Project Manager (Mundri)	Abu Rufas
FSL Agriculture Officer	Franco Monday
FSL Institution Building Officer	Sylvian Tata
FSL Project Assistants	Kezia Kiden
Monitoring and Evaluation Officer	Noah Issa
FSL CARM Assistant	Kennth Gismala
<b>Mundri Operational Staff</b>	
Finance Officer	Malish John Martin
Admin & Log Assistant	Nelson Alison
Finance & HR Assistant	Sylvester Emmanuel
Driver	Oliver Auba & Joseph Saki
Cleaner	Jackline Jackson

Programme was implement in Mundri with support from Juba and Koch staffData for the period covered by the audit, as well as on the number and scope of contracts is provided

A detailed list of contracts [is attached to these TOR (as Annex 4.6)] [will be sent to auditors as soon as the procurement plan is available]6.

<b>Contract No.</b>	<b>Amount (EUR)</b>
JUB-PO1201	2,680.22
JUB-SC0372/2022	35,872.90
MUN-PO0035	5,041.16
MUD-PO0036-2022	392.79
JUB-PR1202	3,520.01
JUB-PO1225	7,927.17
JUB-SC0069/2022	642.25
JUB-SC0058/2020	2,043.67
JUB-PO1248	4,739.34
JUB-PO1251	1,743.54
JUB0058/2022	62.59
JUB-SC0069-2022	573.05
JUB-SC0418/2022	615.01
JUB-PO1246	10,330.62
JUB-SC0415/2022	2,411.82
JUB-PO1235	678.32
JUB-SC0401/2022	51,278.83
JUB-PO1279	5,981.09

JUB-SC0411/2022	79.48
SC JUB-0417/2023	4,199.59
JUB-PO1256	15,334.76
MUD0175-2023	845.15
JUB-PO1286	1,502.49
JUB-PO1255	2,300.68
SC_JUB-0418	2,311.29
JUB-PO1254	2,221.40
MUD-0135-2022	6,576.17
JUB-PO1192	12,560.76
JUB-SC0429/2023	779.60
<b>Total</b>	<b>185,245.75</b>

### 1.3.4 Restrictions to the Scope of Work

The auditor reports to the Contracting Authority as soon as possible about any limitations in the scope of work he/she may find prior to or during the audit.

He/she informs the Entity of any attempt to restrict the scope of the audit, or any lack of cooperation on the part of the Entity. The auditor consults with the Contracting Authority 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.

In the event of security problems arising, the auditor and the Contracting Authority agree on the actions to be taken and adapt the scope of work accordingly.

## 2. Audit Methodology and Reference Framework

### 2.1 Conduct of the Audit

#### 2.1.1 Audit Stages

- Engagement preparation

The auditor should contact the Entity as soon as possible (and no later than 2 days) after the audit has been formally announced to the Entity by the Contracting Authority, to prepare the engagement and agree on its timetable, notably for field work.

He /she should ensure the availability:

- of the final financial statements and of the original supporting documents or photocopies of the originals certified by the Entity and shall address the Entity a first request for documents (elements relating to the financial audit and to the audit of the internal control system);
- Preparatory meeting with the Contracting Authority

The purpose of this meeting is to exchange views on audit planning and field work, as well as on the timetable for preparing the audit report and to clarify the points still outstanding (in particular actions to be taken following the first request for documents).

- Opening meeting with the Project / Programme

An opening meeting with the Entity is organised to address the following topics: planning of the audit fieldwork, logistics and security (premises, vehicles, equipment, etc.), documents availability, key staff availability and initial meetings set up and, if applicable, designation of a focal point at the Entity level.

The auditor should inform the Contracting Authority of this meeting, in which its representatives may take part.

- Execution of the audit engagement

The auditor performs the procedures detailed in section 2.3 of these TOR. He uses a working method as participatory as possible, to obtain as much evidence items and supporting documentation as possible during the engagement and prior to the production of the draft report.

- Aide-mémoire and restitution meeting

At the end of the engagement, the auditor prepares an aide-mémoire and is required to organise a closing meeting with the Entity. Representatives of the Contracting Authority may take part in this meeting, aimed at reviewing the aide-mémoire and obtaining from the Entity its observations on the auditor’s findings and recommendations. If necessary, the Entity is invited to provide additional documents and/or information to be taken into consideration in the draft report.

- Draft Report to be sent to the Contracting Authority

The draft report must be prepared within a period of 3 working days after the closing meeting. Submission follows the following stages:

<b>Option 1: DR sent to AFD and then to the Entity<sup>7</sup></b>	
The Draft Report (DR) is sent to AFD for comments	
The auditor incorporates AFD comments and then revises his/her recommendations/findings, where appropriate	
The DR is sent to the Entity for comments	
The auditor integrates the Entity’s comments and prepares the final report	

- Comments on the draft report by the Contracting Authority/AFD and/or Entity

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AFD has <05> working days to communicate its comments to the auditor, who integrates them into the draft report and communicates the new version to the Entity.

The Entity has <05> working days to communicate additional supporting documentation (scanned) to the auditor. If, at the end of that period, the comments and supporting documentation have not been sent, the auditor then informs AFD, which contacts the Entity to agree on a solution. Any additional period granted by AFD is confirmed in writing to the auditor and the Entity.

- Final report

The final report must be submitted by the auditor within 3 working days following receipt of comments and observations, and of any additional supporting documentation.

## 2.1.2 Audit Timetable

### a) Annual Audits

The indicative start date for the mission is 03rd April 2023. Start-up must occur within 2 working days after official notification.

The period between the audit closing meeting and submission of the final audit report to the Contracting Authority must not exceed 11 working days.

The maximum duration of the mission is set at 22 working days.

A

detailed timetable to be completed by the auditor for a mission of a maximum 1-month duration:

	M1											
	W1	W2	W3	W4								
Engagement preparation	X											
Preparatory meeting with the Contracting Authority	X											
Opening meeting with the Entity	X											
Fieldwork		X										
Aide-mémoire and restitution meeting		X										
Draft report submission (3 days after mission)			X	X								
[AFD] Contracting Authority and Entity observations on Draft Report (5 days after report is received)			X	X								
Submission of final report to Contracting Authority [AFD] and the Entity (3 days after receiving comments and possible additional supporting documentation)				X								

### b) Verification of the Use of Funds for Renewal of Advances<sup>8</sup>

Upon receipt of the disbursement request by the Project / Programme, AFD requests the auditor for a verification mission. In order to enable the financial replenishment of the Project / Programme, the

mission must start within a period of 2 calendar days after formal notification and provide the report within a period of 28 calendar days after the start of the mission.

### 2.1.3 Engagement Logistics

- The auditors will be allocated a conducive working space at the MC offices in Juba and the field.
- The audit firm will responsible for their travel and accommodation in the field. Mercy corps will provide guidance on the programme location
- the auditors will travel to Mundri by flight/road. and will carry out verification in Mundri, Kotobi and Bangalo payams where most of the AFD activities were conducted at.

### 2.1.4 Volume of Services

The estimated overall volume of services in man-days for the entire audit team is 14 days. The table below details the volumes of services by expert<sup>9</sup>:

	Key experts				Non-key experts		TOTAL
	Partner	Team Leader	Supervisor	Senior Auditor No. 1	Assistant Auditor No. 1	Assistant Auditor No. 2	
Min. No. days							
Max. No. days							

### 2.1.5 Report Structure and Content

The use of the audit report template, provided to the auditor, is mandatory. It should be presented in English. Findings and misstatements will be presented in the audit report according to the nomenclature provided in Annex 4.2. and financial findings should be summarised based on the following typology: eligible expenditure, eligible with misstatements, ineligible, unaudited.

The auditor sends the draft report electronically, in Word and Excel for the annexes, to AFD then to the Entity<sup>10</sup><sup>11</sup>.

He /she then sends to the AFD two original paper versions on the auditor's letterhead and an electronic version (in Word and Excel for the annexes) of the final report along with a cover note. In the cover note, he / she should confirm that two original paper versions of the final audit report have been sent to the Entity. The word "draft" or "final" should appear clearly on each version. The final report is signed by the partner in charge of the engagement and its execution. The auditor must also send an electronic version (in PDF format) of the signed and dated final report to the Entity's focal point.<sup>12</sup>.

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<sup>11</sup>

## 2.2 Audit Methodology

### 2.2.1 Sample Determination<sup>13</sup>

The auditor may use sampling based on his / her risk assessment.

- Financial audit relating to the use of allocated funds

To ensure that the tests results are representative, the auditor audits at least 65% (in amount) of the total expenditure stated in the financial report. In case of financial findings greater than 10% of the total amount of audited expenditure, the testing rate should be increased to 85%. 50% of each budget line, and 10% of each sub-line, should be audited.

### 2.2.2 Eligibility Conditions

The auditor performs tests and controls of expenditure eligibility by ensuring:

- its compliance:
  - with the financing and/or delegation (of funds or of project management) agreement<sup>14</sup>, and with the procedures manual<sup>15</sup> and contracts,
  - with the annual activity program for which AFD gave a NON<sup>16</sup>,
  - with procurement legislation, and other local regulations (e.g. for per diem),
  - with technical standards and standards of professional practice for the performance of contracts;
- the existence:
  - of supporting documents by type of expenditure
  - of the required documentation for procurement procedures and contracts' technical execution;
- the probative value of supporting documentation (original supporting documentation, compliance with the chronology of dates, compliance with mandatory information requirements, affixing of stamps and signatures);
- that the Project / Programme has ensured to obtain the most satisfactory quality/price ratio;
- that the expenditure/contracts have been incurred/executed by the Entity during the Project / Programme implementation period defined in the financing and/or delegation agreement<sup>17</sup>;
- that expenditure is adequately recorded in the Entity's accounts;
- that expenditure does not include any ineligible costs (e.g. certain taxes or VAT).

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<sup>13</sup>

### 2.2.3 Determination of the Opinion

The possible audit opinions for financial audits<sup>18</sup> are an unqualified opinion, a qualified opinion, an adverse opinion and a disclaimer of opinion. The report template provided to the auditor contains guidance for the formulation of the opinions.

Auditors are now required, when expressing an opinion on the current year's financial statements, to consider the possible effect of a modified opinion (qualified opinion, adverse opinion and disclaimer of opinion) from a previous year that did not result in an appropriate amendment or solution (ISA standard 710). This avoids the accumulation of unresolved findings.

### 2.2.4 Documentation of Identified Misstatements and Weaknesses

The Excel file attached in Annex 4.3 should be used by the auditor to document procedures performed on audited expenditure and contracts and summarise identified misstatements. Other Excel files [may be sent to auditors upon request] to facilitate the application of audit procedures. Annex 4.3 should be attached to the auditor's report.

Material misstatements detailed in the report must be documented in the auditor's work file electronically or in hard copy and kept for a period of 5 years after approval of the final report.

## 2.3 Audit Procedures

### 2.3.1 Audit of the Internal Control System<sup>19</sup>

The auditor adapts the scope of his review of the design and operation of the internal control system based upon his prior knowledge of the Entity (for multiannual audits).

- Documents analysis

The auditor should particularly examine:

- the financing agreements(s), agreements and protocols with partners, contracts, technical and financial implementation reports, activity programs and any other existing document;
- the organisational set up for administrative, technical and financial management, and its reliability and adequacy in terms of procedures and available human and material resources.
- Review of the internal control system

The auditor should verify the reliability and adequacy of the internal control system's organisation, its actual design and operating effectiveness, in particular with regard to:

**The organisation:**

- definition of tasks and distribution of responsibilities, in particular for commitment and authorisation of expenditure, certification of services rendered and payment;



- separation of incompatible or conflicting tasks;

**The procedures** in place:

- existence of accurate and documented procedures for expenditure justification;
- opening of separate cash accounts based on the origin of funds, as well as implementation of cash control procedures;
- compliance with applicable procedures for supplier selection, and consultant and service provider recruitment (tender documents, tender or candidate evaluation records and selection minutes);

**Archiving**, accountability and, as such:

- organisation, filing and securing of financial papers and documents;
- regular and timely production of financial statements and financial and technical implementation reports, etc.

**Specific controls**, including:

- setup and effective operation of control methods to comply with agreements on anti-money laundering and combatting the financing of terrorism, including completion of due diligence to ensure compliance with economic and financial sanctions regulations;
- detection of double financing of expenditure by multiple donors;
- existence of operational monitoring and control structures.

The auditor may use the *ICS Review Module* file, available on the AFD website, as a framework to perform such work.

- Risk assessment

The previous stage allows the auditor to assess the risks distinctly for each source of information and based on **7 criteria: completeness, effectiveness, evaluation, allocation, rights, obligations and information**.

The auditor should assess the main risks to the achievement of the objectives of the Project/Programme, including risks financing provided to the Project not being used in conformity with the applicable Contractual Conditions and the risk of error, irregularities and fraud with regard to Project / Programme financing.

The auditor should also assess whether the design of the internal control system sufficiently mitigates those risks and whether it operates effectively.

- Obtaining evidence and control testing

The auditor uses his understanding of the internal control system and risks to assess the robustness of controls and test their operational effectiveness, depending on the objective of the audit.

Tests of controls should concentrate on internal control areas and key controls that:

- are appropriate within the context of the Project / Programme, and
- prevent and/or allow to detect and correct individual errors or undesired events, such as:
  - the total or partial non-achievement of the Project / Programme objectives,

- the non-reliability of the Project/Programme financial and technical implementation reports and/or financial statements,
- the fact that funds allocated to the Project/Programme have not been used in accordance with the financing agreement conditions,
- the occurrence of fraud and/or irregularities.

Detailed controls are proposed in the *ICS Review Module* file, available on the AFD website.

### 2.3.2 Financial Statements Review and Verification of the Use of Allocated Funds

- Verification of financial statements

The auditor performs the necessary procedures to verify that resources received and used by the Project / Programme are effectively reflected in complete, sincere and correctly drawn up financial statements. As such, he/she:

- ensures that the Project/Programme financial statements have been prepared in accordance with the requirements set out in the financing and/or delegation agreement<sup>20</sup> (e.g. accrual or cash-based accounting);
- ensures that the financial statements presents fairly, in all material aspects, the actual expenditure incurred and revenue received for the Project/Programme for the period subject to the audit, in conformity with the applicable contractual conditions;
- ensures that the financial statements are consistent with other accounting documents including the trial balance and books of accounts;
- ensures that the financial statements are consistent with the technical and financial implementation reports submitted to AFD and any other financial or statutory reports prepared within the context of the Project / Programme;
- reviews adjusting entries made during the financial statements closing process;
- reconciles the financial statements with the cash situation and/or bank accounts, including by obtaining direct confirmation from the banks managing the accounts;
- verifies, if applicable, the accuracy of exchange rates used for monetary conversions, as well as their compliance with the financing agreement conditions;
- verifies, if applicable, the procedures used to control funds sent to other entities involved in activities implementation.

The auditor may elect to request written statements in a letter of representation (A template, from ISA 580, is provided in Annex 4.4; the auditor will verify that ISA 580 has not altered this template) signed by member(s) of the Management who are primarily responsible for the Entity's management (ISA 580). The purpose of this approach is to obtain evidence that the Management acknowledges its responsibility for: the financial report's reliability, adherence to the financing agreement conditions, compliance with regulations and best practices for procurement and execution of contracts, and the organisation of an appropriate internal control system.

- Verification of the use of funds
-

The objective of these procedures is to ensure that:

- the funds allocated to the Project / Programme by AFD for the period subject to the audit have, in all material aspects, been used in conformity with the applicable contractual conditions;
- the statement of assets presents adequately (number, description and value of assets) and exhaustively the assets acquired for the Project / Programme for the period subject to the audit, in conformity with the contractual conditions and information contained in the financial report.

The auditor's work covers in particular:

- the compliance verification with accounting principles and specific rules;
- the verification of expenditure's compliance with activities agreed upon in the financing and/or delegation agreement<sup>21</sup>, as well as their consistency with technical and financial performance reports;
- the verification that expenditure has been implemented during the implementation period of the audited Project / Programme and is supported by accurate, regular and sincere supporting documentation;
- the verification of statements of expenditure: expenditure authorisations, documentation of expenditure statements, compliance and validity of such statements.

Detailed controls are proposed in the *Financial Module* file, available on the AFD website.

In the case of renewal of advances, the auditor performs the procedures required for an annual audit (see previous paragraph) with regard to: expenditure compliance with agreed upon activities, expenditure implementation during the Project / Programme implementation period and its regular and sincere justification, as well as compliance of the period's statements of expenditure.

The auditor should in addition examine the following key points:

- attainment of the advance absorption rate defined in the financing agreement to enable full or partial renewal;
  - correction by the Project / Programme, over the audited period, of expenditure previously invalidated for a prior period.
- Analytical and budgetary procedures

The auditor performs an analytical review of expenditure to verify whether:

- the budget presented in the technical and financial performance reports corresponds to the budget in the financing and/or delegation agreement<sup>22</sup> and/or approved by the steering committee<sup>23</sup> and/or having received a non-objection notification from AFD (authenticity and approval of the initial budget by lines and sub-lines);
- the expenditure reported in the technical and financial performance reports were foreseen in the budget lines and sub-lines;

- budgetary amendments have been validated by the steering committee<sup>24</sup> and/or have received a non-objection notification from AFD and/or have been formalised in an addendum to the financing agreement;
- the Project / Programme absorption rate is consistent with the activities implementation schedule. The auditor examines discrepancies and obtains explanations about over- or under-execution in the budget.

### 2.3.3 Audit of Direct Payments Made by AFD<sup>25</sup>

In addition to the above procedures described in 2.3.2.b, the auditor shall ensure for direct payments:

- the actual completion of works and services, as well as of their compliance with the conditions of the contract;
  - with regard to fixed-price technical assistance contracts, the consistency between the costs actually incurred by the service provider and those budgeted and integrated into the contract.
- Requirement definition
    - contracts compliance with the procurement plan and budgets (implementation calendar and budget envelopes);
    - for mutual agreement contracts or direct agreement contracts, that the grounds invoked are in compliance with the regulations and that there is no abuse of law in such circumstances.

### 2.3.4 Follow-up of the Recommendations of Previous Audits

The auditor should review the recommendations contained in previous audit reports, assess their degree of implementation and re-assess their priority level, if required. If it is found that these recommendations have not been applied, the auditor tries to identify the underlying causes and proposes solutions for adjustment purposes.

## 3. Professional obligations

### 3.1 Standards and ethics

#### 3.1.1 Professional Standards to be Used

The auditor should take into consideration the various guidelines applicable to the production of financial audit reports. With regard to the application of ISA Standards, special attention should be given to the following:

- **Fraud and Corruption:** in accordance with **ISA 240** (Consideration of the risk of fraud and error in an audit of financial statements), it is important to identify and assess the risks of

fraud, obtain or provide sufficient audit evidence for the analysis of these risks, and deal with identified or suspected fraud appropriately.

- **Laws and Regulations:** when developing the audit approach and executing the audit procedures, the Project/Programme compliance with laws and regulations that may significantly affect financial statements should be assessed, as required by **ISA 250** (Consideration of the risk of misstatement in an audit of financial statements resulting from non-compliance with legal and regulatory texts).
- **Governance:** communication with the Project / Programme Management members in charge of governance on major audit matters in compliance with **ISA 260** (Communication on the mission with those charged with Governance).
- **Risks:** to reduce audit risks to a relatively low level, appropriate audit procedures in response to the risks of misstatements identified after the assessment of the internal control system should be implemented, in accordance with **ISA 330** (Audit procedures implemented by the auditor after his risk assessment).

In accordance with **ISAE 3000**, the auditor should prepare audit documentation that provides:

- sufficient and appropriate evidence of the work serving as a basis for his audit report; and
- evidence that the audit has been planned and performed according to ISA standards and in compliance with applicable legislative and regulatory requirements.

Audit documentation is defined as the presentation of the audit procedures performed, relevant evidence collected and conclusions that the auditor has reached.

Audit files consist in one or more folders or other means of archiving, in a physical or electronic form, containing documentation relating to a specific mission.

### 3.1.2 Ethics and Independence

The auditor should comply with the IFAC Code of Ethics for Professional Accountants, developed and issued by IFAC's International Ethics Standards Board for Accountants (IESBA).

This Code establishes fundamental ethical principles for auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards.

## 3.2 Requirements for the Auditor

### 3.2.1 Auditor's Professional Affiliation

By agreeing these TOR, the auditor confirms that he/she meets at least one of the following conditions:

- the auditor is a member of a national accounting or auditing body or institution which in turn is a member of the International Federation of Accountants (IFAC); or
- the auditor is a member of a national accounting or auditing body or institution; although this organisation is not a member of IFAC, the auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in these TOR.

## 3.2.2 Audit Team Qualifications and Experience

The Auditor will employ staff with appropriate professional qualifications and suitable experience with IFAC standards, in particular International Standards on Auditing and with experience in auditing financial information of entities comparable in size and complexity to the Entity. In addition the audit team as whole should have:

- experience with audits of development aid projects and programmes funded by national and/or international institutions and/or donors;
- sufficient knowledge of relevant laws, regulations and rules in the country would be an asset; this includes, but is not limited to taxation, social security and labour regulations, accounting and accounting information systems, procurement;
- excellent knowledge of French (or other official language of the country);
- audit experience in the Project/Programme sector.

## 3.2.3 Team Profiles

### 3.2.3.1 Key Experts

Experts who are to perform an important role in the mission are referred to as “Key Experts”.

#### **Category 1 – (Audit partner)**

A Category 1 expert (Audit partner) should be a partner or other person in a position similar to that of a partner and be a highly qualified expert with relevant professional qualifications, and assuming or having assumed team leader and supervisor responsibilities in financial audit practice.

He should be a member of a national or international accounting or auditing body or institution. He must have at least 10 years of experience as a professional auditor or accountant, in the field of donor-funded projects / programmes audit.

The audit partner is the person responsible for the specific contract and its performance as well as for the report that is issued on behalf of the firm.

#### **Category 2 – (e.g. Team Leader)**

Team Leader(s) should be qualified expert(s) with a relevant university degree or professional qualification in accounting and/or auditing, They must have at least 8 years of experience as a professional auditor in the field of donor-funded projects / programmes audit. They must demonstrate successful experience in managing audit teams.

#### **Category 3 – (e.g. Supervisor)**

Supervisors should be qualified experts with a university degree or relevant professional qualification in accounting and/or auditing and have at least 5 years of experience as a professional auditor in the field of donor-funded projects / programmes audit.

#### **Category 4 – (e.g. Senior Auditor)**

Senior auditors should be qualified experts with a university degree or relevant professional qualification in accounting and/or auditing and have at least 3 years of experience as a professional auditor in the field of donor-funded projects Non-Key Experts

#### **Category 5 – (e.g. assistant auditor)**

Assistant auditors must have a university degree in accounting and/or auditing and have at least 1 year of professional experience as a professional auditor in the field of donor-funded projects.

#### 3.2.3.2 Support Staff and Technical Support

The auditor is free to propose additional support (administrative and/or technical) in his/her bid, the cost of which should then be incorporated in the expert fees.

#### 3.2.4 Curriculum Vitae (CVs)

The auditor provides the CVs of all experts (key and non-key) proposed as team members. The CVs include information on the types of audits performed by the team members, demonstrating their abilities and capacity to perform the audit, as well as detailed information regarding any relevant experience.

#### 3.2.5 Composition of the Audit Team

	<b>Cat 1: Partner</b>	<b>Cat 2: Team Leader</b>	<b>Cat 3: Supervisor</b>	<b>Cat 4: Senior Auditor</b>	<b>Cat 5: Assistant Auditor</b>	<b>TOTAL</b>
Min. No. of auditors	1	1	0	2	2	
Other personnel (technical or PM)						
<b>TOTAL</b>						

- 4. Appendices
  - 4.1 Key Project/Programme Information
  - 4.2 Nomenclature of Findings and Misstatements
  - 4.3 List of Expenditures and Findings (Model)
  - 4.4 Audit Report Template
  - 4.5 Letter of Representation (Model)
  - 4.6 AFD Contract Award Checklist