

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. Audit subject

The audit subjects are:

- the recipient’s financial statement/annual report for SDC funds for the applicable year .The accountant must perform the audit at cost item level and not at output level.

3. Audit scope

The audit should be carried out in accordance with generally accepted auditing standards (ISA).

In auditing the financial statement, the auditor will assess regularity and whether the applicable requirements have been satisfied. The auditor must establish the completeness of receipts and accuracy of expenditures, and that they derive logically from and are in line with the activity referred to under paragraph 1 of this ToR’s.

The auditor must observe a minimum level of reliability of 95 % and a permitted tolerance of 3 %.

The audit opinion will be drawn up in accordance with the model in paragraph 4 of this ToR's.

The auditor should request a letter of representation from the grant recipient's management stating that, to the best of their knowledge, the financial statement encompasses all transactions and receipts, is accurate and complete in every respect and that all grant conditions, including those beyond the scope of the audit, have been met. In the letter of representation, management should specifically confirm that they have complied with article 16 of the grand decision, which states that: "the grand recipient shall not offer to third parties or seek or accept from or be promised by third parties, for himself or for any other party, any gift, remuneration, compensations or benefit of any kind whatsoever, which could be interpreted as an illegal or corrupt practice".

If, in the course of the audit, the auditor finds evidence of illegal or corrupt practice, he or she must act in accordance with the COS 240 guideline on fraud.

The auditor must report any information that came to his notice during the audit which may reasonable be suspected to be relevant to the grant provider in finalizing the grant award.

Although the auditor does not give an opinion on the narrative part of the annual report, he should ascertain by means of a limited review that the narrative and financial sections of the report are in agreement and contain no contradictions.

4. Reporting

The audit opinion should in any event include the aim and scope of the audit, the audit criteria applied, where relevant, and any restrictions imposed on the scope of the audit.

Furthermore the auditor will write a report of findings regarding the evaluation of the administrative organization and internal control structure of the grant recipient, identifying any matters worthy of mention, including any material shortcomings in the internal control system.

An unqualified audit opinion must be worded as follows:

We have audited the financial statement of at for the period from to The financial statement is the responsibility of the management. Our responsibility is to express a opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and with due regard for the ToR's. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An Audit includes examining, on a test basis, evidence supporting the amounts

and disclosures in the financial statement. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and of the risks of material differences as a result of fraud. We believe that our audit provides a reasonable basis of our opinion.

In our opinion, the financial statement gives a correct and complete view of all receipts and expenditures. Optional: The grand conditions described in article..... of the grand decision have also been met.

The auditor will make separate mention, in the report of findings, of any material deviation from the requirements included in this ToR's. This includes information which the auditor can reasonable suspect to be relevant to the grant provider in finalizing the grant award.

- In the case of an adverse audit opinion, the auditor should indicate:
 - the influence on the transactions included in the financial statement;
 - the grant conditions that have not been met; and/or any unlawful acts identified.

5. 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 1).

5.1. 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.

5.2. 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: _____

Annex 1: Independent auditors' report (Basis: ISA 805)

Audit Report Template

Financial Information Audit of the Project/Program for the period of xy 20XX

(name of project/program, project- and contract-number, period of financial statement)

Name and address of FDFA's Partner

Background of the mandated organization

Short description of the general background of the partner organization:

Project objectives

Short description of the project/program objectives:

Name and address of Auditor

Independent auditor's report

Independent auditor's report on financial information

Implementing partner's address and name of responsible person

Opinion

On the FDFA Standard Terms of Reference, we have audited the financial information for the above mentioned project, which comprise the balance sheet as at 31 December xxx and the income statement for the year [period] ended, [...], and the notes to the financial information including a summary of significant accounting policies.

In our opinion, the accompanying financial information on project xxxx for the year [period] ended xxx are prepared, in all material respects, in accordance with the accounting policies described in the notes and comply with the requirements of the FDFA Standard Terms of reference dated xxxx.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial information" section of our report.

We are independent of the entity in accordance with the requirements of the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the financial information. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibilities for the audit of the financial information

Our objectives are to obtain reasonable assurance about whether the financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are