

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 HELVETAS. 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 HELVETAS 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.
Project application
Project agreement including financing plan
Any changes to the financing plan
Funding guidelines including the BNBest-P/ Private Sponsors

and the BMZ award guidelines

The guidelines for project accounting via an external audit.

All project-relevant receipts (on income, expenses, transfers of funds, exchanges, etc.)

All project-relevant contracts (personnel and fee contracts, rental contracts, construction contracts, etc.)

All project-relevant award documents, including award remarks

Other project-relevant documents requested in the course of the external audit.

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 HELVETAS or any third persons designated by the HELVETAS 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 Donor Requirement (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.

Report on the external audit must contain the following parts:

- Presentation of the audit assignment and scope with detailed comments on the results of the audit. In this context, the auditing body must also list and explain which documents were the basis for the audit of the appropriate use of funds and compliance with the project duration.
- Naming of recommendations, if there were any findings.
- Comment on follow-up to prior years' audit observations, if applicable.
- Financing plan in the most recent version, structured and presented in accordance with the numerical verification of the proof of use, as in the sample in the appendix to this handout (Annex 3). The comparison of planned and actual expenditures is made in the currency in which the expenditures were incurred. The audit does not convert the amounts into euro amounts.
- In case of deviations of the actual expenditures from the planned expenditures according to the last valid financing plan (target) of more than 30 % of the individual estimates (headings in the financing plan), these deviations must be explained and justified separately.
- In the event of deviations of more than 30 % between the actual expenditure and the planned expenditure according to the latest financing plan (target) of the sub-items, this must be justified.
- The final audit statement of the audit certificate must have the following content (minimum requirement), which must be clearly formulated and, if necessary, adapted by the external auditing body:
"We hereby certify that we have audited the financial statements of the [name of the project executing agency in

the developing country] for the financing of the project [name] on the basis of the following conditions of use: [list of relevant contracts and documents]. For this purpose, we examined the books and supporting documents. Our audit led to the following result: ...".

- Subsequently, the audit should provide specific substantive statements on the following questions:
 - 1) To what extent are the receipts and expenditures properly supported by vouchers?
 - 2) To what extent have the documented expenditures been made in accordance with the application and the grant, and do they correspond to the purpose of the application and the latest financing plan? Are any deviations from the most recent financing plan presented in separate explanations?
 - 3) To what extent are the amounts of the proven revenues, which are accounted for as own contributions of the local project executing agency, the target group and/or other agencies in the project country, correctly presented and their origin explained according to the specifications?
 - 4) To what extent were the conditions of the donor listed in the project agreement observed? How were the conditions responded to? In which points were these conditions not observed and are reasons given for the non-observance?
 - 5) What are the positive or negative features of the project that should be mentioned?

The audit report should draw a clear conclusion regarding compliance with the agreements bindingly stipulated in the project contract.

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: _____

- Annex1: Questionnaire on the Overall principles of the procedures to be performed (2.2, 2.3 and 2.4)
- Annex2: Management Letter
- Annex3: Independent auditors' report (Basis: ISA 805)

10. QUESTIONNAIRE

Instruction to the auditor: If the answer is „no“ to one of these questions, further explanation is required in the form of a management letter point.

Questions	Yes	No	n/a	Comments
Existence, adequacy and effectiveness of the Internal Control System (ICS) – Principle 2.2				
1. Is the internal organization (structures, functions, tasks, competencies, responsibilities, methods, procedures, segregation of duties etc.), based on your impression, adequate to the size and operations of the partner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are duties for vital functions and processes sufficiently segregated (e.g. entering commitments, entering and signing of contracts/agreements, authorizing and accounting of expenditures, reconciliation of cash on hand and in banks, follow-up on long outstanding debtors and creditors, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Do you obtain comfort that the ICS of the organization is in adequacy with its size and type of activities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Is the ICS known, applied and documented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Do you obtain comfort on compliance with applicable laws, regulations and instructions (e.g. taxes, salaries, social contributions etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Is an Organization Manual with local context specific regulations (threshold in amount and number of offers to be solicited for local procurements of goods and services, cash limit, etc.) in place and are they followed? Are they in line with local legislation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Did you obtain an understanding of the design of the information and financial reporting system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Has the Partner advised staff, beneficiaries etc. to whom to report any suspect of fraud, misuse, or waste of resources or property?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Questions	Yes	No	n/a	Comments
Conformity with the project objectives and adherence to the contract conditions – Principle 2.3				
9. Is it ensured that signed project agreements (HELVETAS with partner and/or partner with subcontractor/s) exist before any payments are made?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Are the payments within your audit / review scope in accordance with the contract conditions and the agreed budget?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Is the classification of expenses and income in accordance with the agreed contractual conditions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Are approvals for variations from the budget/work plan required in advance of commitment of expenditure?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13. Is the financial reporting in accordance with the project agreement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14. Is the financial reporting of the period under audit / review in line with the reporting timetable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Do project responsible (operational and finance staff) visit field activities and are the findings of these visits documented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Is a written confirmation of the balance of the HELVETAS advances available at project year end?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17. Are the management letter points by the project auditor brought up in past years resolved adequately and/or properly monitored by the management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18. Is it ensured that any significant issues (e.g. fraud, management override of controls, etc.) noted in a review / audit report has been communicated to HELVETAS?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19. Are the partner and any subcontractor/s familiar with regard to VAT and any other tax regulation procedures on the procurement of material and services for the activities funded by HELVETAS?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20. Are there instructions on the approval of expenses (e.g. 4 eyes principle) and are they followed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
21. Is the correct application of fees and allowances as per contract ensured (e.g. fees, rent, travel expenses, hotel accommodation, per diem and other allowances for project experts/consultants)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Questions	Yes	No	n/a	Comments
22.Are control procedures in place to match labor costs (hours) charged to the project with time sheets of the relevant personnel?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
23.Is it ensured that the partner has correctly accounted for his hours on the project (effectively rendered services) in order to avoid double-charging of expenses (e.g. to different projects)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
24.Are all items (fixed assets) representing property of the project maintained and safeguarded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economical conduct of business and effective use of financial resources – Principle 2.4				
25. Is it ensured that project specific financial resources are only utilized for the particular activities and projects?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
26. Do adequate measures and procedures in the ICS exist, to ensure economical and effective utilization of committed resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
27. Is it ensured that prices and rates for material, services and overheads are subject to regular verification?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
28. Is the calculation of fees (charged for services to HELVETAS) transparent and documented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
29. Are all expenditures of expatriate employees reviewed and substantiated (rent, travel expenses, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
30. Are all expenditures related to local staff reviewed and substantiated (gross salary, social and pension contributions, income taxes, travel expenses, rent, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
31. Are there instructions on the non-use of project/program vehicles for private purposes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
32. Are there instructions for the use of equipment after the end of the project?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
33. Are there instructions on the non-use of mobile and fix net phones for private purposes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Any other issues				
34.				
35.				

11. Annex 2

Management Letter (*suggested format*)

Contract Number and Title:

project/programme – financial statement period of:

partner's name and address:

*auditor's name and
address*

Date and Signature

The auditor was required to assess with the enclosed questionnaire whether the partner has adequate policies and procedures in place relating to the following matters:

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

All questions answered with a “no”, are subject of a Management Letter Point, to be risk rated by the auditor and followed up by the partner.

Risk rating of Management Letter Points

- Matters of large or significant importance regarding control environment, accounting policies or practices, which might entail a material loss or material reporting error shall be rated by the auditor as a high Priority;
- Matters of medium importance regarding control environment, accounting policies or practices, which would be unlikely, entail a material financial loss or reporting error shall be rated by the auditor as a medium Priority;
- Matters of low importance regarding control environment, accounting policies or practices or comments relating solely to local reporting matters shall be rated by the auditor as a low Priority.

Findings and Recommendations

No.	Findings	Recommendations	Priority	Management comments and proposed actions	Deadlines
Existence, adequacy and effectiveness of the Internal Control System (principle 2.2)					
Conformity with the project objectives and adherence to the contract conditions (principle 2.3)					
Economical conduct of business and effective use of financial resources (principle 2.4)					

12. Annex 3

Part 1

Audit Report Template

Financial Information Audit of the Project for the period of xx to xx .

Project Number:

Project Title:

Name and address of HELVETAS '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

Part 2

This is provided as a separate Word Format

Quantitative documentary proof

Statement of application of funds

BMZ/Engagement Global project number

Statement of accounts for 20 to 20

Financial statement as at

I.	Expenditure	Appropriation according to Financing Plan of [date] in local currency	Actual expenditure in local currency	Deviation – as a % –
1	for investments			
1.1				
1.2				
1.3				
1.4				
2	for operating expenditure			
2.1				
2.2				
2.3				
2.4				
3	for personnel			
3.1				
3.2				
3.3				
3.4				
5	for evaluation or study			
	Project expenditure			
6	Reserve funds (appropriations only)			
	Total expenditure			

II.	Receipts	Budgeted receipts according to Financing Plan of [date] –in local currency–	Actual receipts –in local currency–	Deviation – as a % –
1	BMZ grant and financial contribution from private executing organisation			
2	Contribution from project-executing agency, target group and/or other source in developing country			
3	Additional resources (e.g. interest, sales revenue)			
	Total receipts			

III.	Financial statement as at	
	Total receipts	–in local currency–
	Total expenditure	./.
	Balance	
	Overspending ¹	

It is confirmed that no funds were available for the financing of the project other than the receipts detailed above. It is also confirmed that all expenditure was necessary, that funds were utilised efficiently and economically and that the information given conforms with the books and vouchers.

..... (Place) (Date)

..... (Signature and stamp)

Independent auditor's report on financial information

Implementing partner's address and name of responsible person

Opinion

On the HELVETAS 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 HELVETAS 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 considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial information.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Auditor's signature

Date of audit report

Auditor's address

Annex: Financial Information – Part 1/Part 2 (including notes), Questionnaire, Management Letter