



TERMS OF REFERENCE FOR LOCAL AUDITS

(valid for audits of projects carried out by the SDC itself, local audits of NGOs and local audits of projects under mandate contracts with fund management)

1. **Fundamental principles**

The audit will be carried out by an **independent** auditor (one who does not have privileged ties with persons responsible for the project or with the organization to be audited), having the required know-how, and in accordance with generally accepted **international standards** (INTOSAI - *International Organization of Supreme Audit Institutions*, ISA - *International Standards on Auditing*, and IFAC – *International Federation of Accountants*), as well as with applicable **national standards** in the country in which the mandate is carried out.

2. **Objectives of the audit**

The objectives of the audit are:

- 2.1 **Examination of the financial regularity**, through the control and evaluation of the exactness, exhaustiveness and fairness of the various accounting transactions, either in full or by sampling, according to need and risk evaluation (before and during the course of the audit);
- 2.2 **Examination of the conformity with project objectives** through the control and evaluation of transactions, expenditures and receipts compared with the basic project documents (project description, programs of activities, contracts, budgets etc.);
- 2.3 **Examination of the economical and efficient conduct of business** through the control and evaluation of
 - a) minimization of the cost of the resources utilized for the activities, always ensuring an appropriate quality
 - b) comparison of expenditures with corresponding budget positions and the control and evaluation of any explanations for divergences;
- 2.4 **Examination of the appropriateness, the relevance and the functioning of the Internal Control System**, through the control and evaluation of the
 - a) internal organization (structures, functions, tasks, authority, responsibilities, methods, procedures, etc.),
 - b) existence, respect and application of laws, regulations and instructions
 - c) protection of resources and assets
 - d) prevention of errors and fraud
 - e) quality and viability of the information system and the reporting
- 2.5 **Examination of the observance of the contract conditions of the project (or the phase) by the contracting parties.**
- 2.6 **Examination of the consideration of remarks stemming from previous audit reports.**



3. Documents of reference

The following documents are considered as basic references for the carrying-out of the mandate:

- national legislation, particularly as concerns the field of finance and the control of accounts;
- cooperation agreements relative to the project or to the audited organization;
- the present mandate and terms of reference for local audits;
- budgets, financing plans, programs of project activities;
- project management procedures;
- accounting documents subject to the audit;
- financial and activity reports concerning the project;
- preceding audit reports;
- any other documents concerning the project;
- any other information requested by the Auditor.

4. Audit program

The auditor shall plan his program so as to ensure that an audit of high standards is accomplished in an economic and efficient manner and within the stipulated time.

On the basis of the information received during the preparatory phase, the auditor will determine :

- the type of transactions to be controlled and the audit method (full or random sample);
- the type of physical controls and corresponding date(s);
- the number of planned visits.

5. Detailed description of the mandate

5.1. *Obtaining the declaration of full disclosure to be supplied by the management of the audited organization*

The auditor shall obtain a written declaration signed by the management of the audited 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 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 audited and for the examination of the consolidated financial statements of the organization
- e) the availability for supplying any information and explanations, either orally or by written confirmation, which might be required by the auditor in the execution of his mandate.



The *consolidated* financial statements, including balance sheets and profit and loss statements of the project are annexed to the declaration and form an integral part thereof. This declaration will be included in the audit report.

5.2. *General controls*

- verification that the clauses of the project contract have been respected;
- verification of the funds received for the project, reconciliation with the corresponding lists supplied by the donors;
- verification of the physical movements of the goods representing the property of the project (fixed assets, non-activated inventory in the balance sheet, current assets);
- verification that goods purchased with allocated funds within the framework of the execution of the project are utilized within the foreseen objectives and are still available or have been ceded/sold in conformity with the methods defined in the project contract;
- verification that expenditures correspond to the budgets as accepted by the authorities. Brief analysis of the deviations between budgeted and effective expenses. Investigation through the persons responsible for the project of the justification for important budget deviations (+/- 10 % of the budget);
- verification of the existence and application by the project of adequate measures of internal control in respect to the utilization of committed resources;
- verification of management procedures relative to the various transactions and the application thereof. In particular, verification of the repartition of competences and responsibilities (commitments, posting of expenditures, reconciliation of cash, follow-up on debtors and creditors, inventories, etc.), judging their efficiency, signaling discovered weaknesses;
- verification of the existence and respect of purchasing procedures. If necessary recommendations for the improvement of existing procedures to guarantee, as much as possible, the best quality/price ratio. Verification that prices and rates conform to local practice;
- verification of the project transactions under the following aspects :
 - a) conformity of expenditure authorizations and validity of the supporting documents,
 - b) arithmetic exactness of the accounts, supporting documents and financial statements,
 - c) exactness of the bookkeeping entries,
 - d) allocation of expenditures in conformity with the budget(s),
 - e) financial statements in agreement with the accounts,
 - f) verification that local contracts are in conformity with local legislation currently in force,
 - g) verification that receipts are exhaustively and regularly accounted for,
 - h) control of advances, accrued or in abeyance, justification for amounts on the books for more than one month before closing,



- i) general verification of bookkeeping ,
 - j) any other verifications that the auditor may consider useful in the execution of his mandate.
- verification that all corrections required from any previous audit have been carried out.

5.3. *Special tasks and controls*

- verification that the accounting system in use responds to the needs of the project as a management tool, particularly as concerns cost analysis;
- full verification of all expenditures tied to foreign experts and national staff (rent, travel expenses, allowances, social security benefits, etc);
- verification of the vehicle logbook and verification that possible private use of vehicles has been invoiced and paid;
- reconciliation of bank and accounting balances;

Upon receipt of the audit program, the client or any third persons designated by him reserve the right to request other controls as the situation at the moment may require.

5.4. *Place of audit*

The audit must be carried out within the project environment (administrative offices, decentralized sites if necessary).

5.5. *Closing session of the audit*

After completion of the audit, but before leaving the project or organization headquarters, the auditor will hold a closing session with the persons responsible for the project (directors) and the concerned staff. The session will address remarks and the results of the audit, bring up significant weaknesses in the administrative and financial management (including the authority of individual staff members) and will propose solutions to the problems brought out during the audit.

The content of the closing session will be transcribed in the form of minutes and signed by the participants. These minutes will be annexed to the audit report.

5.6. *General approach of the auditor*

The auditor undertakes to ensure continuity in the approach to and in the method of the audit, even if there is a change in the person carrying out the physical audit.



6. **Audit Report**

6.1 *Content :*

6.1.1 General description of the audited organization and project, objectives of the project, period covered by the audit.

6.1.2 Objectives and extent of the audit.

6.1.3 Declaration of full disclosure delivered by the project management or the organization audited.

6.1.4 *Financial statements of the project and opinions thereon*, including

- Balance sheet of the project
- Profit and loss statement of the project (clearly reflecting, should it be the case, the capital contributed by each donor during the accounting period)
- Statement of source and application of funds of each donor
- *Opinion* of the auditor on the financial statements of the project, indicating if they are in all respects a true and correct representation of the expenditures incurred and the revenue obtained and conform to generally accepted accounting principles
- Budget comparison of the project, including comments on important deviations
- List of investments, furniture and equipment acquired by the project during the accounting period.

6.1.5 Consolidated financial statements of the organization, including

- Consolidated balance sheet of the organization
- Consolidated profit and loss statement of the organization (clearly showing the allocated funds of each donor during the accounting period)
- Chart showing the financial situation of each donor's contribution to the organization)
- Opinion of the auditor on the consolidated financial statements

6.1.6 Summary of the structure of the internal control system and its operation, opinion on the internal controls, recommendations

6.1.7 Report on the respect of the contract clauses

6.1.8 Remarks, propositions and recommendations

6.1.9 Minutes of the closing session of the audit

6.2. *Form*

The financial information is expressed in (indicate currency). All the documents are written in (indicate language)

6.3. *Signature*

The audit report is signed by (indicate accountant, Certified Public Accountant, or other professional qualification) as the person responsible for the audit, as well as by the legal representative of the firm of auditors.



7. Conservation of working documents

The auditor will correctly keep and preserve all internal working documents for a period of ten years as of the completion of the audit, even if local legislation prescribes a shorter period.

Date :
For

Date :
For the Auditor :

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