Annex 5.1

Terms of Reference

Procedures to be followed

The Auditor designs and carries out this verification in accordance with the objective and scope of this engagement and the procedures to be followed as specified below.

The Auditor obtains sufficient and appropriate verification evidence to be able to draw up a report of factual findings and to give recommendations. For this purpose the Auditor shall refer to the International Standard on Auditing (ISA) and in particular by the paragraphs relating to "sufficient appropriate audit evidence" (ISA-500)[1] and "internal control" (ISA-315)[2]. The Auditor exercises professional judgment as to what is sufficient and appropriate verification evidence where she/he believes that the guidance provided by ISA 500, the terms and conditions of the Partnership Agreement and the TOR are not sufficient. In complying with the ISA, the Auditor is expected to especially pay attention to "Fraud and Corruption" (ISA 240)[3] as well as "Risk" (ISA 330)[4].

1. Obtaining a sufficient understanding of the Project and of the terms and conditions of the Partnership Agreement

The Auditor obtains a sufficient understanding of the terms and conditions of the Partnership Agreement, by reviewing it and its annexes and other relevant information, and by inquiry of the Project Holder. The Auditor obtains a copy of the original Partnership Agreement which has been signed by the Project Holder and Welthungerhilfe, including its annexes.

The Auditor obtains and reviews copies of the [interim/final] Narrative Report.

2. Procedures to verify the eligibility of expenditure claimed by the Project Holder in the financial report for the Project

2.1 General Procedures

2.1.1 The Auditor verifies that the financial reports of the Project Holder comply with the conditions of the Partnership Agreement.

2.1.2 The Auditor examines whether the Project Holder has complied with the rules for accounting and record keeping of the Partnership Agreement in order to assess whether an efficient and effective expenditure verification of the financial report is feasible and whether the Project Holder has maintained an acceptable system of accounting and control.

2.1.2.1 A Management Letter shall report important observations and weaknesses with regard to accounting, record keeping and internal control and documentation requirements.

2.1.3 The Auditor reconciles the information in the financial report to the Project Holder´s accounting system and records (e.g. trial balance, general ledger accounts, sub ledgers etc.) and verifies

[1] http://www.ifac.org/sites/default/files/downloads/a022-2010-iaasb-handbook-isa-500.pdf.

[2] http://www.ifac.org/sites/default/files/downloads/a017-2010-iaasb-handbook-isa-315.pdf.

[3] http://www.ifac.org/sites/default/files/downloads/a012-2010-iaasb-handbook-isa-240.pdf.

[4] http://www.ifac.org/sites/default/files/downloads/a019-2010-iaasb-handbook-isa-330.pdf.

whether the financial statements are accurate and correspond with the books of accounts of the Project.

2.1.4 The Auditor verifies that the correct exchange rates have been applied for currency conversions and are in accordance with the Partnership Agreement.

2.1.5 Where the Project generates income, or involves contributions from the Project Holder, or other sources, the Auditor determines which controls exist to ensure completeness and performs checks to ensure that the reported income is complete.

2.2 Conformity of Expenditure with the Budget and Analytical Review

2.2.1 The Auditor does an analytical review of the expenditures and verifies

2.2.2 whether the budget in the financial report corresponds with the budget of the Partnership Agreement and that expenditure incurred was foreseen in the budget of the Project and assigned to the correct budget lines; and

2.2.3 that the costs are provided in the cost and financing plan of the Partnership Agreement and comply with the principles of sound financial management; and

2.2.4 whether there are budget deviations up to 20% [to be adjusted if section 5.3 of the Partnership Agreement budget deviation has been revised] in individual budget lines; and

2.2.5 were justified and were appropriate to the course of the Project; and

2.2.6 if amendments to budgets were requested and obtained.

2.3 Selecting Expenditure for Verification

2.3.1 The Auditor is required to check a minimum sample amount of expenditure vouchers of each budget line which sufficiently reduces sampling risk[5] to an acceptably low level, in accordance with the guidelines set forth in ISA 530 Audit Sampling, but at least a minimum of 25 % of the expenditure vouchers of each budget line.

2.3.2 The Auditor selects high value expenditure items to ensure coverage of expenditure to estimate the eligibility of the total expenditure and of the quality and the functioning of the internal control measures.

2.3.3 The selection of expenditure items or classes is based on Auditor's judgment.

2.4 Verification of Expenditure

The Auditor verifies the expenditure and reports all the exceptions resulting from this verification, i.e. deviations, found when performing the procedures set out in this **Annex 5.1**. In all cases the Auditor assesses the (estimated) financial impact of exceptions in terms of ineligible expenditure. The Auditor reports all exceptions found including the ones of which he cannot measure the financial impact. Having selected the expenditure items the Auditor verifies the selected items by testing for the criteria set out below.

2.4.1 Eligibility of Costs

The Auditor verifies the eligibility of costs with the terms and conditions of the Partnership Agreement. These costs must be necessary for carrying out the Project and have actually occurred.

[5] ISA 530 definition of "sampling risk": the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure

The Auditor also verifies whether the Project Holder applied to receive reimbursement for Value Added Tax (VAT) or to reclaim taxes of the expenditures made in the Project. If applicable, the Auditor confirms the reimbursed amount in the audited period, as well as the outstanding amount at the end of the audited period. The Auditor also reports on ineligible costs.

2.4.2 Accuracy and Recording

The Auditor verifies that expenditures for a transaction or action have been accurately and properly recorded in the Project Holder's accounting system and the financial report and that it is supported by appropriate evidence and supporting documents.

2.4.3 Reality

The Auditor exercises professional judgment to obtain sufficient appropriate verification evidence as to whether the expenditure has occurred (reality and quality of the expenditure) and - where applicable - assets exist (occurrence/existence) by examining proof of work done, goods received or services rendered, at acceptable and agreed quality and at reasonable prices or costs.

2.4.4 Compliance with procurement rules

Where applicable, the Auditor examines which procurement rules apply for a certain expenditure. The Auditor verifies whether the expenditure incurred in accordance with the RAC (Annex 5 of the Partnership Agreement) or other applicable procurement rules. Where the Auditor finds issues of non-compliance, the nature of such events as well as their financial impact in terms of ineligible expenditure have to be reported. When examining procurement documentation the Auditor takes into account the risk indicators listed below and reports, if applicable, which of these indicators were found:

- Inconsistencies in the dates of the documents or illogical sequence of dates;
- Unusual similarities in offers of candidates participating in the same tender;
- Inconsistencies in the selection and award decision process;
- Same tenderer (or group of tenderers) is invited to different tenders with unusual frequency;
- Same tenderer (or group of tenderers) wins an unusual proportion of bids;
- A tenderer is frequently awarded contracts for different types of goods or services;
- Winning tenderer invoices additional goods not foreseen in the offer;
- Details on the invoice do not accord with tender details for the good.

2.5 Verification coverage of expenditure

2.5.1 The Auditor applies the principles and criteria set out below when planning and performing the procedures for expenditure verification of sections 2.3 and 2.4 above. The Auditor may apply statistical sampling techniques for the verification of one or more expenditure headings or subheadings of the financial report. The Auditor may refer to ISA 530[6] for guidance.

2.5.2 Expenditure Coverage Ratio

The Expenditure Coverage Ratio (ECR) is the amount of expenditure selected (for verification) by Auditor expressed as a percentage of the amount of expenditure recorded by the Project

[6]http://www.ifac.org/sites/default/files/downloads/a027-2010-iaasb-handbook-isa-530.pdf

Holder in its financial report. The Auditor ensures that the overall ECR is at least 75%. If she/he finds unusual expenses, the verification procedures are extended.

3. Procedures to verify the working and quality of internal control

3.1 The Auditor does not provide an audit opinion and expresses no assurance.

3.2 A basic check on the quality of the administrative organisation will be done. The Auditor shall evaluate and quantify the impact of any possible specific shortcomings, point out possible risks, and give recommendations mainly focusing on the improvement in the accounting function, the management system and the system of inventories. The Auditor will prepare, in addition, a Management Letter, basically in the form as set out in Annex 1.6.2 of the Agreement in which she/he shall

3.2.1 formulate comments on the accounting and auditing systems examined in the audit;

3.2.2 identify the specific shortcomings and weaknesses in the Project Holder´s control systems and procedures, in particular in the area of disbursements, procurement, storage and payment operations and shall formulate recommendations to address these;

3.2.3 inform on the corrective measures adopted by the Project Holder´s authorities in the past;

3.3 The Auditor will specifically, but not exclusively

3.3.1 assess adequate segregation of duties between approval, registration and payment;

3.3.2 check that expenses are signed off in accordance with the formal authorisation levels in and in respect of the 4-eyes principle;

3.3.3 verify that separate financial accounts are maintained, which register all financial transactions in relation to the Partnership Agreement;

3.3.4 verify that each transaction has a unique sequence number which allows easy access to the original supporting vouchers (i.e. 3rd party's invoices, receipts, goods receipt notes, tendering documents, payroll records, etc.);

3.3.5 verify that the original vouchers are marked with the sequence number and with all relevant information such as classification code, initials for approval and for receipt of payment, payment date etc. and whether the expenditures claimed through the financial reports are properly approved, classified and supported by adequate documentation;

3.3.6 verify that cash and bank balances are reconciled on a monthly basis and signed by project management;

3.3.7 verify the monthly budget control made by project management;

3.3.8 verify the existence of a fixed assets register and its completeness and check that control and safeguarding of fixed and current assets is assured;

3.3.9 verify whether the project has an effective system of internal audit at all levels.