

# Terms of Reference for local auditors

## A. Applicable auditing standards

Local auditor teams are required to apply the scope of work in accordance with the International Standards on Auditing (ISA) and local GAAPs.

## B. Client expectations / Communication

### **Terre des hommes (Tdh) Annual statutory audit:**

The audit opinion should provide reasonable assurance, that the financial statements are presented fairly, in all material respects, and/or give a true and fair view in accordance with the financial reporting framework

We request auditors to provide an opinion whether financial statements are stated in accordance with international accounting standards.

We also request local auditors to comply with the Ethical and Independence requirements.

The annual statutory audit must be based on Tdh accounting system SAGA. In accordance with the accounting practices, only the transactions made by the Delegation (transactions found under accounting books) should be taken in consideration for the audit purpose.

The annual statutory audit does not apply to the detailed transactions made by subcontracted partners (transactions found under extra accounting books). Nevertheless, the subcontracted partner organisation must at any moment justify the open position recorded under Tdh accounting books. Detailed financial documentations (signed financial reports + justificative documentations shared by the sub-contracted partner based on the MoU signed with Tdh) must be accessible and available at the delegation level in case of auditor request.

The final audit report should be shared with the delegation upon completion of the service from the local auditor.

### **Tdh Annual statutory audit for the countries selected to be audited from Tdh group auditor:**

All deliverables asked in the specific group auditor instructions and communication related will be sent by the local auditor directly to the Group auditor and not share with the Tdh Finance team. The country audit reports, management letter, will have to be answered and signed by the Country representative. Audit debriefing held locally will be done on those documents.

### **Swiss Development and Cooperation (SDC) Annual statutory audit (program contribution):**

In the frame of the annual global contribution received by SDC, separate audit report is requested to the delegation. Such audit (the SDC annual statutory audit) must be based on Tdh accounting system SAGA. The report needs to comply with the International Standards on Auditing ISA 805 The SDC final audit report should be shared with the delegation upon completion of the service from the local auditor.

### **SDC Specific audit (Consortium & Mandates):**

In the frame of implementation of projects funded by dedicated SDC funds or mandates and run directly or via consortium **(with contract stipulating that an annual audit must be produced and delivered)** a separate audit report in accordance with the International Standards on Auditing ISA 805 is requested. The SDC final audit report should be shared with the delegation upon completion of the service from the local auditor.

### **Annual obligatory financials:**

Balance Sheet, Profit and Loss Statement, Cash-Flow Statement, Owner Equity Statement requested by the local government / tax authorities, must be worked separately, and delivered to the respective institutions withing the set deadlines. The work done during the statutory audit (and the certified report delivered from local auditors) can be used as a bases for preparation of the yearly financials requested by the local authorities.

## Recapitulation tables of main deliverables and deadlines:

<b>Audit type / report</b>	<b>Deliverables</b>	<b>Deadline</b>
<b>Tdh Annual Statutory Audit</b>	Separate Audit Report (including detailed documentations as per ToR)	28/02/20XX
<b>Tdh Annual Statutory audit for countries selected to be audited by Tdh Group Auditor</b>	NO separate Audit Report (ONLY exchanges of questionnaires between HQ Auditor and Local Auditor)	28/02/20XX
<b>SDC Annual Statutory Audit</b>	Separate Audit Report (including detailed documentations as per ToR)	28/02/20XX
<b>SDC Specific Audit (Consortium &amp; Mandates)</b>	Separate Audit Report (including detailed documentations as per ToR)	31/03/20XX
<b>Local government yearly obligatory financials</b>	Separate Report (including financials as per local government request - generally Balance Sheet, Profit and Loss Statement, Cash-Flow Statement, Owner Equity Statement)	As per local government deadlines (generally 31/03/20XX)

### 1. Tdh Annual Statutory audit

### 2. Program contribution- SDC Annual audit

### 3. Specific audit work mandated during the annual audit

For all countries

- A. Independent audit report with the audit opinion.
- B. Financial audit report with included the SAGA audit report certified.
- C. An Independent confirmation of the balances of Tdh's Bank accounts at 31/12.
- D. Letter of recommendation with response from the relevant Tdh members in the country and HQ on the points highlighted.
- E. Tdh audit questionnaire filled and signed.
- F. Representation letter signed by Tdh management.
- G. Annex:-List of fixed assets at 31/12 and depreciation annex if requested by country legal requirements.
- H. Annex - List of donations in kind valued at the lowest price of the local market value.
- I. A debriefing of the audit is undertaken with the country Tdh management included in videoconference and at least one HQ Finance person.

- A. Independent auditor report.
- B. Letter of recommendation with response from the relevant Tdh members in the country and HQ on the points highlighted.
- C. Audit questionnaire
- D. Auditor selection approval by the SDC either country or regional office, or SDC HQ Bern (a letter or an email from SDC office justifying accreditation of local auditor).

For countries with SDC consortium project or specific mandates with contract stipulating that an annual audit must be produced and delivered

- A. Independent auditor report.
- B. Letter of recommendation with response from the relevant Tdh members in the country and HQ on the points highlighted.
- C. Ledger of the SDC project costs and incomes.
- D. Time sheets (SDC and Tdh co-funding included).
- E. List of yearly exchange rate used in accounting system SAGA.
- F. Signed financial report to SDC showing separately the annual costs and incomes received. Division of HQ and countries costs shown separately.
- G. Auditor selection approval by the SDC either country or regional office, or SDC HQ Bern (a letter or an email from SDC office justifying accreditation of local auditor).

## C. Audit instructions

### 1. Tdh Annual statutory audit:

The Local Auditor teams are required to apply the below set of audit instructions specifying requested tasks and controls to be performed in order to deliver the final audit report/s. These instructions contain;

- 1.1 Company certification;
- 1.2 Applicable auditing standards;
- 1.3 Ethical requirements, including independence;
- 1.4 Client expectations / communication;
- 1.5 General information;
- 1.6 Financial reporting framework;
- 1.7 Key Accounting principles and disclosure requirements;
- 1.8 Key controls to undertake;
- 1.9 Audit planning;
- 1.10 Audit deliverables.

#### 1.1 Company Certification

The Audit shall be carried out by an independent auditor, which has the required professional competence and experience, e.g. licensed by a national audit oversight authority, with experience in auditing International NGOs with an extended number of projects funded by institutional donors like EU, USAID, etc.

#### 1.2 Applicable Auditing Standards

Local auditors are required to apply the scope of work in accordance with the International Standards of Auditing (ISA) and local GAAP.

#### 1.3 Ethical requirements including independence

Local auditors are responsible for forming a conclusion on compliance with the Ethical and Independence requirements and confirm to Tdh that, in respect of the engagement, the auditor is independent in accordance with the independence requirements of the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code).

#### 1.4 Client expectations / communication

Tdh HQ management and Tdh Foundation Council expect local auditors and Tdh country management to comply strictly with the annual audit deadline. Therefore, HQ Accounting Unit requests that all finalized signed documentations (meeting legal and other management expectations) are shared with HQ within the set deadline of 28/02.

Should the auditor anticipate any problems in meeting the deadline, Tdh country management should be contacted and consequently will liaise with HQ Accounting Unit (Finance Director, Head of Accounting and Head of Field Accounting Unit). Draft documents, including highly significant issues (i.e. a material financial impact and/or involving high risk for the delegation) should be shared by the local auditor with the Tdh country management team in advance for discussions and corrections prior to receiving the final signed documentations. Tdh management expect from local auditors to refer to the previous year audit opinion / management letter points to have a clear picture of possible existing accounting and auditing issues.

#### 1.5 General information

**Accounting system in place:** Tdh uses SAGA software in all implementing countries. SAGA is primarily a financial software developed to follow up the NGO business model (and ease donor financial reporting) while an indirect double entry system where the contra entry account can be identified via usage of different books and accounts.

Delegations follow a cash basis modified accounting (cash based during monthly closures including some accrued expenditures on payment of insurances while applying annually accrued/regularisation during year-end for regularisation of prepaid incomes and expenditures).

The monthly exchange rates are recorded in SAGA (multi-currency software) using OANDA rates (first day of each month rates of CHF against other currencies found at [www.oanda.com](http://www.oanda.com), website).

As primarily a financial software (developed to follow up the NGO business model) yearly financials (Balance Sheet, Profit and Loss Statement, Cash Flow Statement, Owner Equity Statement) are not able to be produced directly from the system. Nevertheless, via usage of multi-currency trial balances, and multi selectors, statutory financials can be produced externally.

**Foundation background:** Background information on the Foundation is available on the website: <https://www.tdh.org/en>. At the country level financial statements are prepared and finalised separately (consolidated in local currency) while consolidated later at HQ level representing the global situation of the foundation.

Key HQ personnel, including (if any) changes during the past year:

Name	Position	Email Address
Grégory LEPINE	Finance Director	gregory.lepine@tdh.org
Pierre Yves BACHMANN	Head of Accounting	pierre.bachmann@tdh.org

## 1.6 Financial reporting framework

Local audit teams are required to apply the scope of work in accordance with the International Standards of Auditing (ISA) and local GAAP while performing the work with a specific focus on **'significant risks, including risks of material misstatement due to fraud'** identified in the financial statements:

- Inadequacy in Segregation of Duties system;
- Material errors due to deviation from Tdh accounting principles and policies;
- Incorrect expenditure and income recognition;
- Inappropriate use of funds (inappropriate usage of donor funds non-compliant with the donor requirements/ agreed objectives and scope of funding);
- Non-compliance with the country's labour and social security legislation;
- Accounting vouchers not providing sufficient evidence on transactions executed;
- Insufficient controls, supervision and documentation when working with implementing partner (MoU, transfer to partners, financial reports);
- Identification and evaluation of risks, litigations, and provisions;
- Logistic policies (thresholds, signatures) and documentations (purchase requests, purchase orders) not up to date, not followed, and not adequately justified;
- Bank signature authorizations not following the principles of Tdh signatory policy;
- Accounting policies have been consistently applied by Tdh and are consistent with those used in the previous year;

Identification of any issues that may represent a significant risk of material misstatement of the financial statements other than those noted above, should be disclosed in the 'Management Letter'.

Kindly inform immediately, on top of the local management, Grégory Lepine (Finance Director) and Pierre Yves Bachmann (Head of Accounting) if identification of issues representing a significant risk of material misstatement.

## 1.7 Key accounting principles and disclosure requirements

The following key audit matters (or jurisdictional equivalent) are included in HQ global auditor instructions:

The accounts are prepared using historical costs base accounting principles (goods acquired for consideration are recorded at their acquisition cost, goods acquired free of charge at their market value or use value, and the products are recorded at their cost of production or construction).

The accounting periods are determined by transaction date principle; expenses as well as revenues are booked to the period. They give a true image of the capital of the company, the financial situation, and the results.

The following provides a summary of the key accounting policies and disclosure requirements that are applied by Tdh and procedures to be performed by the local auditor.

**Related parties are:** Donors, delegations of other countries and regions, sub-contractors/partner organisations, contracted for implementation of specific project/s.

**Foreign currency translation:** Operations in foreign currency are registered using the exchange rate of the accounting month (SAGA uses the rates at the first day of each month from Oanda, [www.oanda.com](http://www.oanda.com), website). The balances of assets and liabilities on December 31 are converted from the foreign currencies into the country official currency based on the exchange rate valid at national bank level reference on December 31.

**Cash in hand (liquidity):** Cash includes amounts appearing under delegation safes and bank account/s.

**Receivables, prepayments and accrued income and expenditure:** Receivables prepayments and accrued income and expenditure are shown at their nominal value, after deducting corrections to the necessary value (calculating the yearly transactions related to).

**Fixed assets and depreciation:** Terre des hommes uses equipment and vehicles as part of its projects abroad; such equipment and vehicles are accounted for as expenses upon acquisition and are therefore not capitalised in the balance sheet. This situation is justified by the uncertain contexts and difficult conditions in which Terre des hommes, operates, which makes it difficult to ascertain their useful life, which is generally short, and any residual value.

**Financial assets:** Financial assets are entered in the balance sheet at acquisition value, taking into account any necessary adjustments.

**Provisions:** Provisions are created when there is a probable cash outflow resulting from a past event for which the value and/or term is uncertain but can reliably be estimated. These provisions are considered short-term if the estimated use is less than twelve months, or long-term if the use is more than twelve months.

**Income at country level / Revenue Recognition:** Income from fund donated is recorded with respect to the wish of the donor. Institutional income is recorded according to the contract signed between Tdh and the fund sponsor considering the expenses incurred. All income received without special notice is allocated to the unrestricted fund. Income from financing contracts with donors (governments, foundations, cantons, companies, and other bodies) is listed as income in the year the expenditure being financed was incurred. Funds received for a specific project, which have not been used at the book closing date and will continue to be used in the coming years and for which there are contractual provisions specifying the possibility of returning the asset to the donor, are recorded as liabilities in Funds received in advance. Funds not received for a specific project for which the financed expenditure is committed at the book closing date, are recorded on the balance sheet as contribution receivables. Tdh does not request local auditors to get donor certification for those balances.

**Valuation of gifts/donations in kind received:** Gifts received in form of services or merchandise are valued at the lowest price on the local market. Volunteer work free contributions are valued at the minimum daily worker legal daily wage. Those amounts should be reported in the financials annexes.

## 1.8 Key controls to undertake

### 1.8.1 General controls

- Verification existence of signed and written contractual agreements with partner organisations;
- Verification of funds received from Tdh HQ and donors for the implementation of projects;
- Verification that goods purchased with donor funds are used as per project objective. Allocation of expenditures in conformity with donor budgets;
- For project implemented by the delegation verification of expenditures through examination of a sample of supporting documents;
- Verification of office expenditures (salaries, office rent, travel expenses, allowances, social security benefits, etc.) through examination of a sample of supporting documentations;
- Verification compliance of local contracts (employment contracts, renting contracts, consultant contracts) with local legislation requirements;
- Verification of HR costs (correctness payroll calculation, staff taxes calculation and payments in compliance with the local legislation requirements), staff contract, annual leaves, timesheets etc;
- Identification and evaluation of risks, litigation, and provision;
- Verification of delegation procedures (finance, logistic, HR) application with a special focus on segregation of duties. Verification of procedures effectiveness and weaknesses;
- Verification of in country VAT status registration and check compliance with the local requirement (declaration, payments, etc);
- Verification of exactness of accounting entries including codification of accounting entries (assets, liabilities, incomes, expenditures) according to the organisation chart of account;

- Verification of delegation open positions (payables, receivable, prepaid incomes, prepaid expenditures) correctness and balance presentation under delegation financials;
- Verification of the existence and respect of purchasing procedures;
- Verification that all corrections required from any previous audit has been carried out;
- Verification of the vehicle logbook and verification that possible private use of vehicles has been invoiced and paid;
- Verification of the SAGA audit reports by currency and to certify each;
- After discussion and approval with the Tdh management, any other verification that the auditor may consider useful in the execution of his mandate.

### **1.8.2 Specific audit work with local partnerships**

- For subcontracted project review of implementing partner organisation audited financial statement. If no audited financial statements, verification of partner's project expenditure reports. the subcontractors/partner organisations must justify and certify the amounts received by Tdh and used for project implementation.
- Verification of the existence and respect of the Tdh head office instructions. Make sure the process works correctly and controls are in place.
- Selection process of the partner whether the partner is compatible and likely to be trustworthy for Tdh (program management, performance framework, procurement & financials and additional conditions, reporting) etc.
- In relation with the agreement(s): Review the general terms and conditions on which the funds are made available, including how and when they are disbursed, procurement requirements that are applicable and the program / financial reporting that the partner must fulfil, etc.
- Disbursements and control processes: control the reviews of the progress update and disbursement request. Check who reviews the budget (expenditure and cash balance), indicators (monitoring & evaluation and procurement) and performs a contextual review. Assess the controls done by the Country team and the controls done by the financial controllers in the Lausanne team.

### **1.8.3 Specific audit work for bank certification**

Certification at 31/12 of the bank accounts balances used by Tdh: Auditor should ensure correctness of all bank accounts balances as of 31/12 via checking of balances appearing in the accounting system and comparing them with balances appearing in the bank statements and bank reconciliations, including balances appearing in Tdh accounts certification at 31/12 received by the bank administration. A standard independent letter, prepared by the delegation, should be sent to the banks requesting certification of bank balances used by Tdh as at 31/12. This letter states that the certification is to be sent to the group auditor head office and to the auditor in the country.

#### **Bank account confirmation methodology:**

- The delegation receives a sample letter from HQ and sends it to the bank(s). The methodology and content of this letter are validated by Terre des hommes' global auditor and contains all the elements that the bank(s) must certify;
- This letter is signed by the delegation (TDH representative in the country);
- A scan of the signed letter is sent to HQ (Head of Treasury Loïc JAUNIN [loic.jaunin@tdh.org](mailto:loic.jaunin@tdh.org));
- The delegation sends the original signed letter to the bank/s;
- The Delegation follows that this letter is well received by the responsible / focal point person at the bank/s;
- The delegation informs Terre des Hommes HQ of any problems encountered during this process;
- The delegation ensures that the bank confirmation is received by the country's auditor;
- The delegation ensures reception of a copy of the bank confirmation;
- The HQ Head of Treasury Loïc JAUNIN ensures that the HQ auditor receives the bank certifications;

**Bank signature policy** - Joint signatures by two (obligation to be signed by the Terre des hommes representative in the country). The auditor ensures compliance with this policy. Any change to this policy must be accompanied by a waiver signed at Head quarter by the Treasurer or the Finance director of Terre hommes.

## 1.9 Audit planning

Task	Responsible	Deliverables
Kick-off statutory audit meeting	Country Management + Local Auditor	Minutes of meeting
Draft reports meeting	Country Management + Local Auditor + Financial Controller + HQ Accountant	Draft reports including management letter response from Tdh management
Closing meeting	Country Management + Local Auditor	Minutes of Meeting

## 1.10 Audit deliverables

Annual Statutory Audit Documentations	Responsible	Deadline
Independent audit report including audit opinion	Local Auditor	28/02/20XX
Financial audit report including SAGA audit report certified	Local Auditor	28/02/20XX
Independent confirmation of Tdh bank account balances as of 31.12.20XX	Local Auditor	28/02/20XX
Tdh audit questionnaire filled and signed	Local Auditor	28/02/20XX
Annex: List of fix assets depreciated at 31.12.20XX	Local Auditor	28/02/20XX
Annex: List of donations in kind received by Tdh	Local Auditor	28/02/20XX
Management letter including Tdh management response	Local Auditor	28/02/20XX
Management representation letter signed by Tdh management	Tdh delegation management	28/02/20XX

## 2. SDC annual statutory audit:

SDC Annual Statutory Audit in accordance with the International Standards on Auditing (ISA 805) is performed during the same timing of the annual statutory audit work and Tdh management requests from the local auditors specific extra tasks to be undertaken during this period including delivering of a separate audit report complying with SDC program contribution rules.

In attachment, file "SDC ToR Financial audit (International Cooperation Programme)" with ToR including questionnaire, management letter template and independent auditor report template.



**SDC annual statutory audit deliverables:**

<b>SDC Annual Statutory Audit documentation</b>	<b>Responsible</b>	<b>Deadline</b>
Independent audit report including audit opinion	Local Auditor	28/02/20XX
SDC audit questionnaire filled and signed	Local Auditor	28/02/20XX
Management letter including Tdh management response	Local Auditor	28/02/20XX
Management representation letter signed by Tdh management	Tdh delegation management	28/02/20XX
Auditor selection approval by the SDC	Tdh delegation management	28/02/20XX

**3. SDC specific audit (Consortium & Mandates):**

Specific annual audit work will be mandated to the local auditor if coming under the following possible scenarios:

1. **For SDC consortium** (i.e. Wash Consortium and Wash Transform) local auditors are responsible to deliver below list of documents as per attached ToR;
2. **For SDC mandates** local auditors are responsible to deliver below list of documents **ONLY IF** requested under the **signed agreement with the donor**.

Carry a specific annual audit on the project, in accordance with the International Standards on Auditing ISA 805. The work of the local auditor should be in accordance with the ToRs and audit instructions and according to the assigned and agreed deadline. The following documents should be submitted at the end of the work by the local auditors;

In attachment, file "SDC ToR Financial audit (Projects)" with ToR including questionnaire, management letter template and independent auditor report template.

**SDC Specific Audit deliverables:**

<b>SDC specific audit documentation</b>	<b>Responsible</b>	<b>Deadline</b>
Independent audit report including audit opinion	Local Auditor	31/03/20XX
SDC audit questionnaire filled and signed	Local Auditor	31/03/20XX
Management letter including Tdh management response	Local Auditor	31/03/20XX
Management representation letter signed by Tdh management	Tdh delegation management	31/03/20XX
Auditor selection approval by the SDC	Tdh delegation management	31/03/20XX
Ledger of the project costs and incomes. HQ and countries costs and revenues are separated	Local Auditor	31/03/20XX
Working time registration/time sheets (all the staff in the project including the one funded by SDC and/or Tdh)	Local Auditor	31/03/20XX
List of the year exchange rate used in the accounts (SAGA accounting system's list of rates)	Local Auditor	31/03/20XX
Financial report for SDC signed showing the annual costs and incomes received in-country. HQ and countries costs, and revenues are separated.	Local Auditor	31/03/20XX