

## TERMS OF REFERENCE for Swiss NGO with International Cooperation Programme

### FINANCIAL AUDIT of country programme with multiple projects or of a single project (hereinafter 'Audit')

The financial information for one or more projects within the country shall be audited in accordance with International Standard on Auditing (ISA) 805 'Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement' for single project audits.

#### 1. Fundamental principles

1.1 The Audit shall be carried out **either** for the **country programme with multiple projects** or for a **single project** by an independent auditor, which has the required professional competence and experience, e.g. licensed by a national audit oversight authority ('the Auditor'), and in accordance with the International Standards on Auditing (ISAs).

1.2 These Terms of Reference ('TORs') define the mandate of the Auditor in connection with the Audit of the projects/programmes of the cooperation/implementing partner ('the Partner') financed by the Federal Department of Foreign Affairs (FDFA). The Audit is based on the professional requirements and guidelines governing the professional work to be undertaken by auditors.

1.3 In planning, conducting and reporting on the Audit, the Auditor shall follow the **ISA 805**.

In addition, the Auditor shall give due consideration to the relevant standards of the local accounting profession as well as the local legislation on accounting and financial reporting in force in the country in which the Audit is carried out.

#### 2. General procedural principles

The Auditor is required to plan, perform and report on the Audit in order to assess the following matter:

- **2.1 Regularity of the accounts**

Furthermore, the Auditor is required to assess separately whether the Partner has adequate policies and procedures in place relating to the following matters (**these matters are not covered by the audit engagement in accordance with the ISA, as mentioned above, but are substantiated by means of the attached Questionnaire and/or Management Letter**):

- **2.2 Existence, adequacy and effectiveness of the Internal Control System (ICS)**
- **2.3 Conformity with the project objectives and adherence to the terms of the contract**
- **2.4 Economical conduct of business and effective use of financial resources**

In order to assess these procedural principles, the Auditor shall consider the questions in the attached Questionnaire (Annex 1). While item 2.1 shall be reflected in the audit report prepared in accordance with the ISA, items 2.2 to 2.4 do not constitute an audit in accordance with an international standard and no formal assurance is required. These items shall be reflected separately in the answers of the Auditor to the Questionnaire in Annex 1 and recommendations to the management shall be formulated in line with Annex 2 (Management Letter).

With regard to principle 2.3, the questions in the Questionnaire and items in the Management Letter refer to the locally paid and reported expenses which are within the scope of the Audit and do not include project expenses that are centrally budgeted, calculated and charged to the project and paid or recorded outside of the country of implementation.

The Auditor shall clearly state and provide reasons for any expenses not budgeted and paid in the country of project implementation, or are not part of the local accounts, which are included in the statement(s) of expenditure as per the Annex to the audit report.

#### 3. Reference documents

In performing the Audit, the Auditor shall give due consideration to the following basic reference documents and matters:

Legislation:	National law
Projects:	Cooperation agreement relative to the project or to the Partner Project Document / TORs Contract and work performed by subcontractors (if applicable) Budgets, financing plans, programme of project activities Project/programme management procedures Audit engagement letter describing the scope, terms and costs of the country audit Any other documents concerning the project/programme (e.g. operational and administrative manuals)
Accounting:	Accounting documents subject to the Audit Financial and operational reports concerning the projects Financial manuals/procedures
Auditor:	Prior internal and external audit reports of the Partner Any other information requested from the Partner by the Auditor

#### **4. Planning the Audit**

The Auditor shall adequately plan the Audit well in advance of the work and ensure that the Audit is performed to the highest professional standards and in an economical and efficient manner as agreed in the contract between 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 shall ensure continuity in the audit approach used for the Audit and by the audit team, even if there is a change in the leader of the engagement team from the prior year.

#### **5. Place of Audit**

The Audit shall be carried out at the country office and in the project environment (administrative offices and/or decentralised sites, if applicable).

#### **6. Management representation of full disclosure**

The Auditor shall obtain a letter of representation signed by the Partner's management stating that

- a) the Partner acknowledges its responsibility to keep accounts and financial documents that are correct, complete, fair and represent the true facts and are in accordance with the objectives of the project, the reference documents (description of the project, contracts, budgets, etc.) and national legislation;
- b) all accounting records, supporting and other documents, minutes and any other pertinent information necessary for the Audit will be made available to the Auditor;
- c) the information regarding tangible assets and property is complete;
- d) the information regarding financing received or due and the Partner's own financing relating to the audited period for the projects being examined is complete;
- e) any information and explanations that may be required by the Auditor in the performance of its mandate, either verbally or in writing, will be provided.

#### **7. Detailed audit procedures**

The Auditor shall apply appropriate audit procedures in order to form a conclusion on the matters outlined below. The procedures applied, either on a full coverage or a sample selection basis, may include controls, checking, evaluations, inspections, interviews, analysis and other audit techniques. When selecting the audit procedures, the Auditor shall give consideration to the results of its risk assessment (during the planning stage and during the course of its 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 performance of the audit engagement.

Upon receipt of the audit report, the FDFA, or any third parties designated by the FDFA, reserve the right to request other audit procedures to take account of any change in circumstances relating to the project or the Partner.

In addition, in order to ensure adherence to the principles set out in section 2 above, the Auditor shall consider the questions in the attached Questionnaire (template in Annex 1). Any 'no' answers must be included as recommendations in the Management Letter (template in Annex 2).

## **8. Closing meeting**

After the completion of the Audit, 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/programme (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 any shortcomings identified for individual staff members) and make recommendations to improve project management, accounting procedures and the internal control system (ICS).

## **9. Audit deliverables**

The audit report of the Auditor shall provide an opinion on the financial information of the Partner in accordance with the ISA (template in Annex 3).

The answers to the Questionnaire (template in Annex 1) and recommendations to the management (template Management Letter in Annex 2) for the projects as well as the letter of representation shall be provided as separate deliverables together with the audit report.

### 9.1. Currency and language of the audit report

The financial information contained in the audit report of the Auditor shall be expressed in the accounting currency. The audit report of the Auditor and all other documents resulting from the audit engagement must be prepared in English, French or Spanish.

### 9.2. Signature

The audit report shall be signed by the leader of the audit team. The financial report for the audited project provided by the Partner shall be signed by a representative of the Partner's management.

Place and date: \_\_\_\_\_

For the Partner: \_\_\_\_\_

For the Auditor: \_\_\_\_\_

- Annex 1: Questionnaire on the general procedural principles (2.2, 2.3 and 2.4)
- Annex 2: Management Letter
- Annex 3: Independent auditor's report (basis: ISA 805)

**Annex 1****QUESTIONNAIRE**

Instructions to the local Auditor: a comment is required where this may help explain or clarify the situation. If the answer is 'n/a' a comment/explanation must be provided. If the answer to any of the questions is 'no', a further explanation must be included in the Management Letter.

Please specify the scope and number of samples in response to questions, as appropriate.

Questions	Yes	No	n/a	Comments
<b><i>Existence, adequacy and effectiveness of the Internal Control System (ICS) – Principle 2.2</i></b>				
1. Is the internal organisation (structures, functions, tasks, competencies, responsibilities, methods, procedures, segregation of duties, etc.), based on your impression, appropriate for the Partner's size and operations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are duties for risk-related functions and processes sufficiently segregated (e.g. entering into obligations, entering into and signing contracts/agreements, authorising and accounting for expenditure, making payments, reconciling cash in hand and in banks, following up outstanding accounts receivable and accounts payable, incl. signatory list)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you confident that the Partner's ICS is appropriate for 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. Are you confident that applicable laws, rules and regulations (e.g. relating to taxes, salaries, social contributions, etc.) have been complied with?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Is an organisation manual containing local context-specific rules (thresholds for amounts and number of offers to be solicited for local procurements of goods and services, cash limits, etc.) available and are these rules followed? Are the rules 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 they should report any suspected fraud, misuse, or waste of resources or property?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Questions	Yes	No	n/a	Comments
<b>Conformity with the project objectives and adherence to the terms of the contract – Principle 2.3</b>				
9. Is it ensured that project agreements signed between the FDFA and the Partner and, if applicable, between the Partner and subcontractor(s) exist before any payments are made?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Are the locally paid expenses in accordance with the description and objectives of the project agreement (incl. subcontractors)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Are approvals for variations from the budget/work plan required before expenditure is committed and incurred?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Are the local project expenses in local accounting currency expressed in a local financial report and are these transactions the basis for the auditor's report?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13. Are the payments falling within the scope of the Audit in accordance with the financial terms of the contract and in line with the agreed budget?  (Budget comparison only possible if reporting of local expenses & income and contractual budget is available for local expenses and in local accounting currency).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14. Do the officers responsible for the project (operational and finance staff) visit field activities for monitoring, evaluation and control purposes and are the findings from these visits documented, communicated and followed up?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Is a written confirmation of the balance of the FDFA's contractually agreed project advances available and reconciled at financial year-end?  (Must be provided if the advances are paid locally in local currency. Confirmations in CHF must be provided at HO if the balances cannot be reconciled with national books).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Have the points raised by the Auditor in the Management Letter in previous years been resolved adequately and/or are they properly monitored by the management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Questions	Yes	No	n/a	Comments
17. Is it ensured that any significant issues (e.g. fraud, corruption, management override of controls, etc.) identified in the course of the Audit have been communicated to the client in the closing meeting and stated in the audit report?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18. Are the Partner and any subcontractor(s) compliant with regard to national tax regulation procedures on the procurement of material and services for the activities funded by FDFA?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19. Are there instructions on the approval of expenses (e.g. second-pair-of-eyes principle and definition of approval/procurement/recording authorities for payments) and are they followed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20. Is the correct application of official local guidelines for local lump-sum allowances and local fees ensured?				
21. Is it ensured that the Partner has established a system which correctly accounts for labour hours on projects (services actually rendered) in order to avoid double-charging of expenses (e.g. to different projects)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
22. Is a system in place which ensures that tangible assets belonging to the project(s) are maintained and protected?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Questions	Yes	No	n/a	Comments
<b><i>Economical conduct of business and effective use of financial resources – Principle 2.4</i></b>				
23. Do adequate measures and procedures exist to ensure economical and effective utilisation of committed resources only for the project intended?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
24. Is it ensured that a process exists for regular verification of local prices and rates for materials, services and overheads?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
25. Are all locally incurred expenditures of expatriate employees and local staff checked and substantiated (salaries, tax, rent/accommodation, building charges, travel expenses, communications, per diem, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
26. Are there instructions on the non-use or conditions attached to the use of project/programme property and infrastructure (vehicles, equipment, mobile phones, etc.) for private purposes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
27. Are there instructions for the use of equipment after the end of a project?  (For assets donated or fully third-party financed: charges, e.g. mileage, can only include actual operating costs).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b><i>Any other issues</i></b>				
28.				

## ***Annex 2***

### **Management Letter *(suggested format)***

***Project/programme – financial statement period from xxx to xxx:***

***Partner's name and address***

***Auditor's name and  
address***

***Date and signature***

The Auditor was required to assess, using 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 ToRs)
- **Conformity with the project objectives and adherence to the terms of the contract**  
(principle 2.3 as mentioned in the ToRs)
- **Economical conduct of business and effective use of financial resources**  
(principle 2.4 as mentioned in the ToRs)

All questions answered with a 'no' must be itemised in the Management Letter, risk assessed by the Auditor, and followed up by the Partner.

#### **Risk priority rating of Management Letter points**

- Matters of **major importance** regarding the control environment, accounting policies or practices, which might entail a material loss or material reporting error shall be rated by the Auditor as **high priority**.
- Matters of **medium importance** regarding the control environment, accounting policies or practices, which are unlikely to entail a material financial loss or reporting error, shall be rated by the Auditor as **medium priority**.
- Matters of **low importance** regarding the control environment, accounting policies or practices, or comments relating solely to local reporting matters shall be rated by the Auditor as **low priority**.

## Findings and recommendations

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

## ***Annex 3***

### **Audit report template**

**Financial information audit of *multiple projects or of a single project*<sup>1</sup> for the period from xy to xy 20XX**

**[Name of country office and project(s), project and contract number(s), period of financial statement(s)]**

**Name and address of the FDFA's Partner**

***Background of the mandated organisation***

Briefly describe the Partner's general background:

***Country project objectives or single project objective***

Briefly describe the objectives of the project/projects:

**Name and address of auditor**

**Independent auditor's report**

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<sup>1</sup> All text in italics to be adjusted according to the type of audit (single project or country programme audit)

## *Independent auditor's report on financial information*

*Implementing partner's address and name of responsible person*

### **Opinion**

Based on the FDFA's Terms of Reference, we have audited the financial information for the above-mentioned project(s), which comprises the following financial information:

- *the consolidated balance sheet as at (end date of period) and the statement(s) of income and expenditure for the year, starting on [start of period] and ending on [end of period]*
- a breakdown of budget vs expenditure by project, and
- the notes to the financial information including a summary of significant accounting policies.

In our opinion, the accompanying financial information on the project(s) for the year [period] ended xxx have been prepared, in all material respects, in accordance with the accounting policies described in the notes and comply with the requirements of the FDFA's Terms of Reference dated 18.03.2022.

### **Basis for opinion**

We conducted our audit in accordance with the 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 the 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 this financial information.

As part of an audit in accordance with the 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 (including notes and expenditures per project), Questionnaire, Management Letter