plan:g
Partnership for Global Health

Terms of Reference (ToR)

For the Financial Audit of

title of the project

number of the project

country of the project

Partner implementing the programme/project

name of project partner

for the period from

to

Date from Date to

1. Background

The following are the standard Terms of Reference (ToR) on plan:g Partnership for Global Health agrees to engage auditors to perform a financial audit.

2. Objectives of the audit

The objective of the audit is to provide plan:g with reasonable assurance that funding resources are managed in accordance with all applicable standards, including internal guidelines. Therefore, it shall be assessed if

- the financial reporting that is the subject of the audit presents fairly, in all material respects, the actual expenditure incurred and the revenue received for the project for the period from __________ to __________ in conformity with the applicable legal and plan:g regulations; and if
- the project funds provided have, in all material respects, been used in conformity with the applicable legal and plan:g regulations.

3. Scope of the Audit

Prior to the start of the audit, the auditor will be required to consult with the Project Partner in order to understand how the project is managed. Also, plan:g shall be informed in writing of the commencement of the audit, and asked for any potential issues of concern. Furthermore, upon completion of the draft audit report and management letter, the auditor will be required to meet with the Project Partner to brief them on major audit findings and its recommendations for future improvements, as well as to seek feedback thereon.

The audit will be performed at

____

Location(s)
(Indicate the correct location(s) where the audit is to be performed.)

The auditor confirms the location(s) and time schedule for the audit with the Project Partner that is subject to the audit prior to the start of the audit, and ensures that relevant supporting documents as well as key staff will be available during the audit.

If the audit scope covers several projects, a separate and specific audit report should in principle be issued for each audited project.

The **subject of the audit** is the **expenditure and revenue as stated in the financial report on the project** for the period from __________ to __________ .

The auditor will inform the Project Partner as soon as possible about any **limitations in the scope** of work he/she may find prior to or during the audit.

The auditor will report any attempt by the Project Partner to restrict the scope of the audit, or any lack of cooperation on the part of the Project Partner.

The audit of projects must cover, but is not necessarily limited to, the following:

(a) The final accounts of project spending for the entire project period
(b) An audit report presenting the approved budget, and if variations between planned and actual expenditure have occurred, specifying these variations
(c) Clear identification of deficits, if any
(d) An examination as to whether financial policy and procedures ensure smooth and efficient implementation of activities and prevent fraud
(e) An evaluation of the financial bookkeeping systems in terms of reliability, comprehensibility and correctness of the accounting entries and the integrity of the documentation (receipts and supporting documentation)
(f) An examination as to whether asset management and procedures (purchase, inventory, storage, operational use, disposal) are in line with plan:g regulations to avoid misuse
(g) An examination as to whether the national labour law and tax regulations have been observed.
(h)

Option: Additional specific objectives can be included if the auditor is requested to report on specific matters. If not, this option should be removed.

4. Audit certification

The audit of the project should review the following aspects. If appropriate, the audit should confirm and certify that:

(a) The disbursements are made in accordance with the activities and budgets of the project document
(b) The disbursements are supported by adequate documentation
(c) The financial reports are fairly and accurately presented
(d) An appropriate management structure, internal controls and record-keeping systems are maintained and functioning
(e) The cash position reported by the projects
(f) The status of assets and equipment held by the project
(g) The implementing agency and plan:g have undertaken and have prepared reports for monitoring and evaluation of the substantive activities and of the management systems of the project

(h) The procurement, use, control and disposal of non-expendable equipment are in accordance with plan:g's requirements
(i) The use of contingency is in accordance with the ERF guidelines and is properly disclosed under specific budget lines

5. Standards and Guidance

The auditor who performs this financial audit is governed by:

- The IFAC International Standards on Auditing (ISAs) for Audits of Historical Financial Information insofar as these can be applied in the specific context of a contractual compliance audit.
- The IFAC Code of Ethics for Professional Accountants (issued by IFAC's International Ethics Standards Board for Accountants [IESBA]), which establishes fundamental ethical principles for auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards.

6. Requirements for the Auditor

By agreeing to these ToR, the auditor confirms that he/she meets at least one of the following conditions:

- The auditor and/or the firm is a member of a national accounting or auditing body or institution which in turn is a member of the International Federation of Accountants (IFAC).
- The auditor and/or the firm is a member of a national accounting or auditing body or institution. Although this organisation is not a member of the IFAC, the auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.
- The auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body and this register is subject to principles of public oversight as set out in the legislation of the country concerned.

The auditor shall employ staff with appropriate professional qualifications and suitable experience with IFAC standards, in particular International Standards on Auditing and with experience in auditing financial information of entities comparable in size and complexity to the entity.

7. Audit Procedures

The auditor should exercise due professional care and judgement and determine the nature, timing and extent of audit procedures to fit the objectives, scope and context of the audit. The auditor should, in accordance with ISAs, prepare audit documentation and obtain sufficient appropriate audit evidence to support audit findings and to draw reasonable conclusions on which to base the audit opinion. The auditor should use professional judgement to determine whether audit evidence is sufficient and appropriate.

The auditor's procedures should include:

- Obtaining an understanding of the engagement context.
    - The auditor should obtain a sufficient understanding of the engagement context, including the project, the entity and the plan:g regulations which apply to the project.
- The audit should pay specific attention to the entity's control environment and more specifically to:
    - Documentation, filing and record keeping for project expenditure and income
    - Eligibility of project expenditure and income (including relevant procurement rules)
    - Cash and bank management (treasury)
    - Accounting and financial reporting (including underlying transaction processing systems and financial ledgers)
    - Budgetary and expenditure control
    - Human resources and payroll processes

The understanding should be sufficient to identify and assess the

- risks of material errors or misstatements in the expenditure and revenue stated in the financial report, whether caused by error or fraud; and
- main risks to the achievement of the project objectives, including the risk of the project funding provided not being used in conformity with the applicable conditions.

The auditor should assess the main risks. This involves an assessment of the risk that:

- the financial report on the project is not reliable, i.e. that it does not present, in all material respects, the actual expenditure incurred and the revenue received for the project;
- the project funds have not, in all material respects, been used in conformity with applicable contractual conditions;
- fraud and irregularities can occur or have occurred which have an impact on project expenditure and income.

8. Selection Expenditure for Verification

The auditor applies the principles and criteria set out below when planning and performing the specific verification procedures for selected expenditure. Verification by the auditor and verification coverage of expenditure items does not necessarily mean a complete and exhaustive verification of all the expenditure items that are included in a specific expenditure heading or subheading.

The auditor should ensure systematic and representative verification. Depending on certain conditions (see further below), the auditor may obtain sufficient verification results for an expenditure heading or subheading by looking at a limited number of selected expenditure items.

The Expenditure Coverage Ratio (ECR) represents the total amount of expenditure verified by the auditor expressed as a percentage of the total amount of expenditure reported in the financial report.

The auditor ensures that the **overall ECR is at least 65%.** If he/she finds an **exception rate** of less than 10% of the total amount of expenditure verified (i.e. 6.5%), the auditor finalises the verification procedures and continues with reporting.

If the exception rate found is higher than 10%, or if the auditor assesses serious weaknesses or deficiencies in respective controls with major risks, or any other reasonable suspicion, the auditor extends verification procedures until the ECR is at least 85% up to 100%.

The auditor ensures that the ECR for each expenditure heading and subheading in the financial report is at least 50%.

The auditor verifies the selected expenditure items and reports all the factual findings and exceptions.

9. Procedures to Verify the Eligibility of Costs

The auditor verifies for each expenditure item selected the eligibility criteria set out below.

- <u>Costs actually incurred</u>
  The auditor verifies that the expenditure for a selected item was actually incurred by and pertains to the beneficiary. For this purpose, the auditor examines supporting documents (e.g. invoices, contracts) and proof of payment. The auditor also examines proof of work done, goods received or services rendered and verifies the existence of assets if applicable.
- <u>Implementation period</u>
  The auditor verifies that the expenditure for a selected item was incurred during the implementation period of the project.
- <u>Budget</u>
  The auditor verifies that the expenditure for a selected item was indicated in the budget.
- <u>Necessary</u>
  The auditor verifies whether it is plausible that the expenditure for a selected item was necessary for the implementation of the project.
- <u>Records</u>

The auditor verifies that the expenditure for a selected item is recorded in the accounting systems and was recorded in accordance with the applicable accounting standards and the usual cost accounting practices.

- Justified
  The auditor verifies that the expenditure for a selected item is substantiated by evidence and notably the supporting documents.
- Valuation
  The auditor verifies that the monetary value of a selected expenditure item corresponds with underlying documents (e.g. invoices, salary statements) and that correct exchange rates are used where applicable.
- Classification
  The auditor examines the nature of the expenditure for a selected item and verifies that the expenditure item has been classified under the correct (sub)heading of the financial report.
- Compliance with procurement
  Where applicable, the auditor examines which procurement rules apply for a certain expenditure item. The auditor verifies whether the expenditure was incurred in accordance with plan:g regulations by examining the underlying documents of the procurement and purchase process. Where the auditor finds issues of non-compliance with procurement rules, he/she reports the nature of such events as well as their financial impact in terms of ineligible expenditure.

10. Audit Reporting

All audit reports should include the background of the audited Project Partner and project.

○ *<Option 1 (standard)>* A **specific** and **separate** audit report should be issued for **each audited entity (cooperation agreement)**.

○ *<Option 2 (exceptional)>* This option can only be used if and when the audit covers a series of cooperation agreements which are implemented by the same entity and the results of the audit (findings and opinion) can be aggregated in one audit report. One audit report should be issued for the following cooperation agreement: <specify project> *<remove if not applicable>*.

☐ The report should be presented in _________ (language). An executive summary of the audit report in _________ (language) should be provided along with the report.]

Audit findings and recommendations

All audit findings and recommendations should be reported in a separate management letter. The auditor should explicitly state and specify results (satisfactory and unsatisfactory) of specific procedures for obtaining audit evidence in case of doubt or uncertainty with regard to the eligibility of expenditure in the report. The management letter should include all financial findings made by the auditor regardless of the amount involved.

The management letter should provide at a minimum the following information:

a) A general review of project progress and timeliness in relation to progress milestones and the planned completion date, both of which should be stated in the project document. This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs. However, general compliance with broad covenants such as implementing the project with economy and efficiency might be commented upon, but not with the legal force of an audit opinion.
b) An assessment of the project's internal control system with equal emphasis on (i) the effectiveness of the system in providing the project management with useful and timely information for the proper management of the project and (ii) the general effectiveness of the internal control system in protecting the assets and resources of the project.
c) A description of any specific internal control weaknesses noted in the financial management of the project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted should be included.
d) Comments as to whether recommendations made in the management letter for the previous audit were implemented or, if not, the implementation status.

The management letter should also include the following:

e) The categorisation of audit findings by risk severity: high, medium, or low. Definitions of these categories are given in Annex 2.
f) The classification of possible causes of the audit findings. Definitions of these causes are given in Annex 3.
g) Comments as to whether recommendations made in the management letter for the previous audit were implemented or, if not, the implementation status.
h) Management comments/response (implementing agencies, project management and/or plan:g, as applicable).

More detailed guidance for each of the above general categories is provided below.

Review of Project Progress

As part of the general review of project progress, specific steps could include the following:

a) Review annual and quarterly work plans, quarterly financial reports and requests for direct payments and assess in terms of their timeliness and their compliance with the project document.
b) Review the annual project reports prepared by the implementing agency and assess in terms of compliance with plan:g's guidelines whether the implementing agency met its responsibilities for monitoring described in the project document

and work plans.

c) Review whether the decisions and/or recommendations for the above activities have been followed through by the implementing agency.
d) Review the pace of project progress and comment on the causes for delays.
e) Comment on whether or not the implementation services of the NGO were provided in line with the project document and the work plan.

Assessment of Internal Controls

The assessment of internal controls should include the following:

a) Review expenditures made by the implementing agency and assess whether they are in accordance with project documentation, work plans and budgets.
b) Review the process for procurement/contracting activities and assess whether it was transparent and competitive.
c) Review the use, control and disposal of non-expendable equipment and assess whether it is in compliance with plan:g's guidelines; and also whether the equipment procured met the identified needs and whether its use was in line with intended purposes.
d) Review the process for recruiting project personnel and consultants and assess whether it was transparent and competitive.
e) Review the implementing agency accounting records and assess their adequacy for maintaining accurate and complete records of receipts and disbursements of cash, and for supporting the preparation of the financial reports.
f) Review the records of requests for direct payments and ensure that they were signed by authorised officials.
g) Review relevant IT systems.
h) Interview officials of the grantee organisation as necessary, to ensure a full understanding of the functioning of the internal control system.
i) Clearly indicate an opinion on internal controls and their impact on the financial reports.
j) Indicate any 'good practices' that were developed by the grantee organisation and could be shared with other grantees.

Recommendations for Improvement

Recommendations should be directed to a specific entity so there is no confusion regarding who is responsible for implementation. The response of the entity should be included in the management letter, immediately following the recommendation. Also, the auditor may wish to comment on 'good practices' (if any) that were developed by the executing agency that should be shared with other project personnel.

11. Annexes

Annex 1: List of projects to be audited

Annex 2: Categorisation of Audit Findings by Risk Severity

High	Action that is considered imperative to ensure that plan:g is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).
Medium	Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).
Low	Action that is considered desirable and should result in enhanced control or better value for money.

Annex 3: Classification of Possible Causes of Audit Findings

Compliance	Failure to comply with prescribed plan:g regulations, rules and procedures
Guidelines	Absence of written procedures to guide staff in the performance of their functions
Guidance	Inadequate or lack of supervision by supervisors
Human error	Mistakes committed by staff entrusted to perform assigned functions
Resources	Lack of or inadequate resources (funds, skills, staff, etc.) to carry out an activity or function