*Note on completing the ToRs: Please delete the parts in the grey marked areas that do not apply to the planned audit.*

**Terms of Reference for a Financial Project Audit**

|  |  |
| --- | --- |
| **Title of the Project:** | Including the Excluded |
| **Project number:** |  |
| **Organization:** | KOPILA Nepal |
| **Project period:** |  |
| **Audit period:**  |  |
| **Total Budget:** |  |
| **Donor:** | BMZ/GLRA |
| **Place of Audit:** | Pokhara, Nepal |

|  |
| --- |
| 1. **Background and Introduction:**
 |
| Provide a concise overview of the project and its objectives (max. 10 lines). Explain the need for a finance audit to ensure accurate financial reporting, transparency, and compliance. (max 3 lines)The project aims to promote inclusion of people with disabilities in health, education, livelihood, and social/political sphere. Therefore, the primary target groups of the project are people with all types of disability and their family members in the case of severe and profound disability. The secondary target groups are wider community people including the political leaders, members of municipality, health workers and schoolteachers who will have the opportunity to participate in awareness raising, training and workshop. The whole community will benefit through reduced barriers and increased knowledge and understanding of disability.Project goal is to improve access to rights and entitlement of people with disability through empowerment and removal of barriers in the community and the overall objective is people with disabilities have improved quality of life through increased access to public and health services and are empowered to claim their rights.Transparency in all aspects of its work is fundamental to KOPILA Nepal. We have tried to maintain high level of accuracy and transparency in all our financial transactions and records. However, having, and external audit is essential to authenticate our efforts and to capture any lessons learned during the implementation of the project. |

1. Objectives of the audit

The purpose of the audit is to confirm whether the financial and asset management systems as well as the design of the internal control systems being used complies with internationally accepted norms, and whether the corresponding DAHW or donor policy has been satisfactorily implemented.

The **objectives** of this audit are to enable the Auditor to express an opinion on whether:

* the Financial Report presents fairly, in all material respects, the actual expenditure incurred and the revenue received for the Project in conformity with the applicable DAHW or donor regulations; and
* the Project funds provided have, in all material respects, been used in conformity with the applicable DAHW or donor regulations.
* the Internal Control Systems set up and operated by the Entity for the purpose of managing risks, was suitably designed and operated effectively.

The **additional specific objectives** of this audit are:

* Verifying accounting records for correctness and completeness.
* Verifying the financial report in which all project-related revenues and expenditure must be shown and for which it must be confirmed that **receipts are provided for all revenues and expenditure**.
* Verifying how the provided project funds have been managed. This includes:
	+ **Project funds** transferred to the project partner in the current budget year or during the project term
	+ **Interest earned** in the current budget year or during the project term from project funds transferred to the project partner
	+ Other **revenues from the project activity**.
* Verifying to what extent the funds have been **used appropriately.**
* Verifying the **cost-effectiveness of expenditure** with regard to financial resources (to be used economically and as effectively as possible).
* Verifying whether **the prices correspond to the market price**.
* Verifying the **personnel costs and social security contributions** to ensure that they are in line with local standards, legal in the respective project country and, above all, that they comply with contracts and that the contributions required by law are being withheld.
* Verifying that the cost plan is being adhered to by means of a **comparison of objectives and effects** (based on the most recent valid budget).
* Verifying the **economic use of project equipment**.
* Verifying whether asset management and procedures ( purchase, storage, operational use, disposal) are in line with DAHW or donor regulations to avoid misuse and verifying the procured **inventory, where it is being held** and **whether it has been/is being used appropriately** for the purpose of carrying out the planned project objectives and activities.
* Verifying and confirming that project-relevant documentation is complete and correct.
* Verifying that **all agreements fundamental to the project are being adhered to** (In case of BMZ financed projects: contracts, German private executing agency guidelines, BMZ funding requirements, BNBest-P/private ex-ecuting agencies and BMZ contract award guidelines.
1. Standards and Guidance

The Auditor shall undertake this engagement in accordance with

TheIFAC *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.

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 National Institute of Chartered Accountants of Nepal (ICAN) and International Federation of Accountants (IFAC).
* The Auditor and/or the firm is a member of ICAN but is not 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 in a third country and this register is subject to principles of public oversight as set out in the legislation of Nepal (this applies to auditors and audit firms based in a third country)
* The auditor’s qualification must be recognised and independent auditor must be confirmed by the ICAN

The Auditor will employ staff with appropriate professional qualifications and suitable experience with IFAC standards, in particular International Standards on Auditing (ISA standards) and with experience in auditing financial information of entities comparable in size and complexity to the Entity.

1. 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 uses 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 Projects, the Entity and the DAHW or donor regulations which apply to the Projects.
* The Auditor should identify controls which are relevant and appropriate to the Entity.
* The audit should cover an examination of the Entity's control environment and more specifically of:
* Documentation, filing, and record keeping for expenditure and income.
* Asset management (including procurement process and procedures). This concerns management and control of Project fixed assets (such as vehicles, equipment etc.).
* Cash and bank management (treasury).
* Accounting and financial reporting (including underlying transaction processing systems and financial ledgers as well as verification of the authorised representatives and signatories of the accounts).
* Computerised information systems (IT).
* Budgetary and expenditure control.
* Human resources, payroll processes and time management.

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
* the main risks to the achievement of the objectives of the Project including risks to the Project funding provided not being used in conformity with the applicable conditions.

The Auditor should assess the main risks. This work involves an assessment of the risks that:

* the Financial Report of 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.

The Auditor should assess whether the design of the Internal Control Systems sufficiently mitigates those risks and whether it is operating effectively. A weakness or a deficiency in controls exists where an internal control is designed, implemented, or operated in such a way that it is unable to prevent, or detect and correct errors, or where a necessary internal control is missing.

1. Selection expenditure for verification [for DAHW-financed projects]

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 a 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 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 weakness 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.

1. Procedures to verify the eligibility of costs

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

* Costs actually incurred

The Auditor verifies that the expenditure for a selected item was actually incurred by and relates 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 he/she verifies the existence of assets if applicable.

* Implementation period

The Auditor verifies that the expenditure for a selected item was incurred during the implementation period of the Action.

* Budget

The Auditor verifies that the expenditure for a selected item was indicated in the budget.

* Necessary

The Auditor verifies whether it is plausible that the expenditure for a selected item was necessary for the implementation of the Plan of Action.

* Records

The Auditor verifies that expenditure for a selected item is recorded in the accounting system and was recorded in accordance with the applicable accounting standards and the usual cost accounting practices (cash based accounting).

* Justified

The Auditor verifies that 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 agrees 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 DAHW or donor 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.

* Vouchers

The auditor verifies that the expenditure voucher or invoice is easily traceable through regional / programme office stamp and a unique voucher number on the original document.

1. Audit Reporting

The audit report shall include the following parts:

* + Audit certificate including Auditor’s opinion
	+ Financial Report (approved budget vs. expenditures), including balance and inventory list
	+ Management Letter
	+ Summary of Findings (see Annex)

The audit certificate shall include the following aspects:

* Presentation of the **audit assignment and scope** with extensive comments on the audit findings. The auditor must also state **the audit process** (including different meetings, steps, etc.) and **which documents were used for the audit** of appropriate use of funds and compliance within the project term.
* **Actionable recommendations** for improving financial management practices.
* Comment on **how audit observations from previous years were followed up on**, if required
* **Budget (most recent version), with the structure used for the financial report**. The comparison of planned and actual expenditure is shown in the **currency in which the expenditure was incurred.** The audit will not convert these amounts to Euros.
* **Deviations** of actual expenditure from the planned expenditure in the most recent budget **that exceed …% of individual budget items,** (main items in the budget), must be explained and reasoned.
* **Deviations** of actual expenditure from the planned expenditure in the current budget **that exceed ..% of individual budget sub-categories, reasons must be given.**
* **Final opinion** of the Auditor**.**
* The final audit option in the audit certificate must state the following (**minimum requirement**), which is to be worded clearly by the external auditor and adapted if appropriate:

“We hereby certify that we have audited the statement of accounts of *[name of project part-ner in developing country]* regarding the financing of the project *[name]*. Our audit was carried out on the basis of the following requirements pertaining to the use of funding: *[List of rele-vant contracts and documents].* To this end, we have inspected the books and receipts. Based on our audit, we confirm that:”

Following this, the audit should provide specific statements on the following questions:

1. To what extent has all income and expenditure been properly documented by means of receipts?

2. To what extent has documented expenditure complied with its application and project approval and to what extent is it in keeping with the appointed purpose and the most recent budget? Have any deviations from the most recent budget been explained separately?

3. To what extent has documented income, that is accounted for as contributions made by the local project partner, the target group and/or other agencies in the project country been specified correctly and its origin explained in accordance with specifications?

4. To what extent were the donor’s conditions that were specified in the project agreement met? What response was there to these conditions? Which of these conditions were not adhered to and were reasons given for this?

5. Which special aspects – positive or negative – should be mentioned with regard to this project?

1. **Timeline and Location**

The audit will be performed at Pokhara, Nepal.

The timeline for the audit shall be as followed:

|  |  |
| --- | --- |
| **Milestones:** | **Date:** |
| Data collection & Analysis |  |
| Delivery of draft report |  |
| Delivery of final report |  |
| Debriefing meeting with project staff |  |

ANNEX

# Summary of Findings

PROJECT [Name and No./Country]

ORGANIZATION [Name of the Organization]

PERIOD AUDITED FROM [date] TO [date]

**General Information**

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **amount** | **% of total Project expenditure reported (Expenditure Coverage Ratio)** | **% of the total amount of expenditure verified (exception rate)** |
| Total amount of expenditure verified by the Auditor  | [ amount ] | % |  |
| Financial findings (ineligible expenditure established) | [ amount ] |  | % |

**Financial Findings**

|  |  |
| --- | --- |
|  | **Financial findings** |
| **N°** | **compliance issue / reason for ineligible expenditure** | **no(*1*) of findings** | **Total Amount [currency]** |
|
| 1 | Missing / inadequate documentation |  |  |
| 2 | No written approval from appropriate official |  |  |
| 3 | Incorrect procurement procedure applied |  |  |
| 4 | Budget exceeded without prior approval (see actual DAHW or donor Budget Handling Procedures).  |  |  |
| 5 | Expenditure not for project purposes |  |  |
| 6 | Fraud and irregularities |  |  |
| 7 | Income not declared / not reported |  |  |
| 8 | Other financial findings |  |  |
| 9 | Other financial findings (add further lines) |  |  |

 2\*

|  |  |  |
| --- | --- | --- |
| **Total financial findings** |  |  |

(1) This is the number of times a finding for the compliance issue concerned was made.

**Internal Control Findings**

| **N°** | **internal control issue** | no findings (mark with a cross) | Level of Risk (high/ middle/ low) | number of findings | **Observations, implications and recommendations** |
| --- | --- | --- | --- | --- | --- |
| priority 1**\*** | priority 2**\*** |
| 1 | Asset management: procurement process and procedures are observed |  |  |  |  |  |
| 2 | Asset management: assets are labelled with identification numbers and added to the asset register |  |  |  |  |  |
| 3 | Inventory is properly managed, use is controlled. (Log books are kept for vehicles.) |  |  |  |  |  |
| 4 | Cash and bank management: there is a separate cash book for each project; cash transactions are recorded daily |  |  |  |  |  |
| 5 | Cash and bank management: all payments are subject to a procedure of authorisation (approval from an appropriate official) which is always observed |  |  |  |  |  |
| 6 | Cash and bank management: bank accounts signatories are according to DAHW or partner policy (four-eyes-principle adhered to) |  |  |  |  |  |
| 7 | Cash and bank management: Cash book and bank accounts are reconciled monthly |  |  |  |  |  |
| 8 | Accounting: all entries are subject to an original voucher |  |  |  |  |  |
| 9 | Accounting: all entries are supported by an adequate documentation |  |  |  |  |  |
| 10 | Accounting: all payment vouchers are cancelled after payment |  |  |  |  |  |
| 11 | Accounting: accounting software is properly handled by the accountant |  |  |  |  |  |
| 12 | Different personal is in charge of cash and book keeping |  |  |  |  |  |
| 13 | Budgetary and expenditure control: there is a regular budget control |  |  |  |  |   |
| 14 | Human resources: there is a valid contract for all national staff |  |  |  |  |   |
| 15 | Human resources: national labour, income tax and social security regulations are observed |  |  |  |  |   |
| 16 | Other (add further lines) |  |  |  |  |   |

\* Priority levels for ranking recommendations:

*Priority 1 – Prompt specific action is required. Key internal controls are absent or are not complied with on a regular basis. There is a fundamental weakness or deficiency in an internal control or in a series of internal controls which involves a substantial risk.*

*Priority 2 – Specific remedial action is desirable. There is a weakness or deficiency in internal control which, although not fundamental, relates to shortcomings which expose specific internal control areas*.