

TERMS OF REFERENCE

FINANCIAL REVIEW

The Financial Information of the project/program shall be reviewed in accordance with International Standards on Review Engagements (ISRE 2400).

1. Fundamental principles

1.1 The financial review of projects (“financial review”) is to be carried out by an independent auditor (“the auditor”), having the required professional competence and experience (e.g. Certification by National Audit Oversight Authority), and in accordance with International Standards on Review Engagements.

1.2 These Terms of Reference (“TOR”) define the mandate of the auditor in connection with the financial review of projects/programs of the partner, financed by the Federal Department of Foreign Affairs (FDFA). The financial review is based on the professional requirements and guidelines governing the professional work to be undertaken by an auditor.

1.3 In planning, conducting and reporting on the financial review, the auditor has to follow the ISRE 2400.

In addition, the relevant standards of the local accounting profession as well as the local legislation on accounting and reporting in force in the country in which the financial review is carried out need to be taken into consideration by the auditor.

2. Overall principles of the procedures to be performed

The auditor is required to plan, execute and report on the financial review engagement in order to conclude on the following matter:

- **2.1 Principles of orderliness (financial regularity/reporting)**

Furthermore, the auditor is required to assess whether the partner has adequate policies and procedures in place relating to the following matters (those matters are not covered by the review engagement in accordance with ISRE as mentioned above):

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

In order to respect these principles, the auditor has to analyse the questions mentioned in the annexed Questionnaire (Annex 1). While item 2.1 will be reflected in the review report prepared in accordance with ISRE, items 2.2 to 2.4 will be reflected by the answers of the auditor to the Questionnaire in the Annex 1. Recommendations to the management shall be formulated according to Annex 2 (Management Letter).

3. Documents of reference

The following documents and matters are to be considered by the auditor as basic references for performing the financial review:

Legislation:	National law
Project/program:	Agreement between FDFA and the partner relative to the project; Project Document / TOR; Budgets, financing plans, programs of project activities; Project management procedures; Any other documents concerning the project/program.
Accounting:	Accounting documents subject to the financial review; Financial and operational reports concerning the project/program.

Auditor: Prior internal and external audit or review reports of the partner;
Any other information requested from the partner by the auditor.

4. Planning the financial review

The auditor shall adequately plan the financial review engagement well in advance of the work and ensure the execution of the financial review of highest professional quality in an economical and efficient manner as agreed upon in the respective mandate in the name of 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 reviewed and the review methods
- the type of physical counts or examination and the sites to be selected;
- the number of site visits to be planned.

The auditor ensures continuity in the review approach of the financial review engagement and the audit team, even if there is a change in the leader of the engagement team from the prior year.

5. Place of financial review

The financial review is to be carried out at the project/program environment (administrative offices and/or decentralised sites, if applicable).

6. Management representation of full disclosure

The auditor shall obtain a management representation letter signed by the management of the partner organization, certifying:

- a) The acknowledgement of the organization's responsibility for the keeping of accounts and financial documents that are correct, complete, fair, representing the true facts, in conformity with the objectives of the project, the documents of reference (description of the project, contracts, budgets, etc.) and national legislation;
- b) That all accounting records, supporting and other documents, minutes and any other pertinent information necessary for the audit be at the disposal of the auditor;
- c) The completeness of information concerning property and goods;
- d) The completeness of information concerning financing received or due and own financing concerning the audited period, for the project being examined;
- e) The availability of any information and explanations, either orally or by written confirmation, which might be required by the auditor in the execution of his mandate;
- f) In the case of contributions to local NGOs, the declaration has to certify the completeness of information concerning financing received or due and own financing concerning the audit period, for the project being audited **and** for the examination of the consolidated financial statements of the organization. The consolidated financial information, including balance sheets and profit and loss statements of the project are to be attached to the declaration and form an integral part thereof. This declaration shall be provided together with the financial audit report.

7. Detailed financial review procedures

Appropriate review procedures are to be applied by the auditor in order to form a conclusion on the matters outlined below. These procedures applied may include: controls, checking, evaluation, inspection, interview, analysis and other review techniques. When selecting the review procedures, the auditor shall give consideration to the results of his risk assessment (during planning stage and during the course of the review work).

Accordingly, the auditor must define and carry out suitable review procedures in order to obtain an overview of the aforementioned aspects before the auditor assesses the individual findings and reaches a final independent conclusion on the review.

The auditor is expected to select and apply any other review procedures that the auditor may consider necessary in the professional execution of the financial review engagement.

Upon receipt of the financial review report, the FDFA or any third persons designated by the FDFA reserve the right to request other review procedures to cope with the change in circumstances in the project or of the organisation of the partner.

In addition, in order to respect the principles mentioned under Art. 2 above, the auditor has to analyse the questions in the annexed Questionnaire (Template Annex 1). Any answers with “no” have to be taken up as recommendations in the Management Letter (Template Annex 2).

8. Closing meeting

After the completion of the financial review engagement, 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/program (directors) and the staff responsible for accounting and reporting. The meeting shall address the results of the review, discuss major weaknesses in the project, administrative and financial management (including the deficiencies of individual staff members) and propose recommendations to improve the project management, the accounting procedures and the internal control system (ICS).

9. Financial audit deliverables

The review report of the auditor shall provide a conclusion on the financial information of the partner as per ISRE (Template Annex 3).

The answers to the Questionnaire (Template Annex 1) and recommendations to the management (Management Letter according to Template Annex 2) as well as the management representation letter shall be provided as separate deliverables together with the review report.

9.1. Currency and language of the financial review report

The financial information contained in the financial audit report of the auditor is to be expressed in the currency provided for in the contract. The financial review report of the auditor and all other documents resulting from the financial review engagement must be prepared in English.

9.2. Signature

The financial review report is to be signed by the leader of the audit team. The financial reporting subject to review shall be signed by a representative of the management of the partner.

Place and date: _____
For the partner: _____
For the auditor: _____

- Annex 1: Questionnaire on the Overall principles of the procedures to be performed (2.2, 2.3 and 2.4)
- Annex 2: Management Letter
- Annex 3: Independent auditors' report (Basis: ISRE 2400)

QUESTIONNAIRE

Instruction to the auditor: If the answer is „no“ to one of these questions, further explanation is required in the form of a management letter point.

Questions	Yes	No	n/a	Comments
Existence, adequacy and effectiveness of the Internal Control System (ICS) – Principle 2.2				
1. Is the internal organization (structures, functions, tasks, competencies, responsibilities, methods, procedures, segregation of duties etc.), based on your impression, adequate to the size and operations of the partner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are duties for vital functions and processes sufficiently segregated (e.g. entering commitments, entering and signing of contracts/agreements, authorizing and accounting of expenditures, reconciliation of cash on hand and in banks, follow-up on long outstanding debtors and creditors, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Do you obtain comfort that the ICS of the organization is in adequacy with 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. Do you obtain comfort on compliance with applicable laws, regulations and instructions (e.g. taxes, salaries, social contributions etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Is an Organization Manual with local context specific regulations (threshold in amount and number of offers to be solicited for local procurements of goods and services, cash limit, etc.) in place and are they followed? Are they 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 to report any suspect of fraud, misuse, or waste of resources or property?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Questions	Yes	No	n/a	Comments
Conformity with the project objectives and adherence to the contract conditions – Principle 2.3				
9. Is it ensured that signed project agreements (FDFA with partner and/or partner with subcontractor/s) exist before any payments are made?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Are the payments within your audit / review scope in accordance with the contract conditions and the agreed budget?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Is the classification of expenses and income in accordance with the agreed contractual budget?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Are approvals for variations from the budget/work plan required in advance of commitment of expenditure?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13. Is the financial reporting in accordance with the project agreement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14. Is the financial reporting of the period under audit / review in line with the reporting timetable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Do project responsible (operational and finance staff) visit field activities and are the findings of these visits documented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Is a written confirmation of the balance of the FDFA advances available at project year end?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17. Are the management letter points by the project auditor brought up in past years resolved adequately and/or properly monitored by the management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18. Is it ensured that any significant issues (e.g. fraud, management override of controls, etc.) noted in a review / audit report has been communicated to FDFA?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19. Are the partner and any subcontractor/s familiar with regard to VAT and any other 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"/>	
20. Are there instructions on the approval of expenses (e.g. 4 eyes principle) and are they followed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
21. Is the correct application of fees and allowances as per contract ensured (e.g. fees, rent, travel expenses, hotel accommodation, per diem and other allowances for project experts/consultants)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Questions	Yes	No	n/a	Comments
22. Are control procedures in place to match labor costs (hours) charged to the project with time sheets of the relevant personnel?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
23. Is it ensured that the partner has correctly accounted for his hours on the project (effectively rendered services) in order to avoid double-charging of expenses (e.g. to different projects)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
24. Are all items (fixed assets) representing property of the project maintained and safeguarded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>Economical conduct of business and effective use of financial resources – Principle 2.4</i>				
25. Is it ensured that project specific financial resources are only utilized for the particular activities and projects?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
26. Do adequate measures and procedures in the ICS exist, to ensure economical and effective utilization of committed resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
27. Is it ensured that prices and rates for material, services and overheads are subject to regular verification?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
28. Is the calculation of fees (charged for services to FDFA) transparent and documented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
29. Are all expenditures of expatriate employees reviewed and substantiated (rent, travel expenses, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
30. Are all expenditures related to local staff reviewed and substantiated (gross salary, social and pension contributions, income taxes, travel expenses, rent, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
31. Are there instructions on the non-use of project/program vehicles for private purposes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
32. Are there instructions for the use of equipment after the end of the project?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
33. Are there instructions on the non-use of mobile and fix net phones for private purposes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>Any other issues</i>				
34.				
35.				

Management Letter (*suggested format*)

project/programme – financial statement period of:

partner's name and address

auditor's name and address

Date and Signature

The auditor was required to assess with 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 standard ToR)
- **Conformity with the project objectives and adherence to the contract conditions**
(principle 2.3 as mentioned in the standard ToR)
- **Economical conduct of business and effective use of financial resources**
(principle 2.4 as mentioned in the standard ToR)

All questions answered with a “no”, are subject of a Management Letter Point, to be risk rated by the auditor and followed up by the partner.

Risk rating of Management Letter Points

- Matters of **large or significant importance** regarding control environment, accounting policies or practices, which might entail a material loss or material reporting error shall be rated by the auditor as a **high Priority**;
- Matters of **medium importance** regarding control environment, accounting policies or practices, which would be unlikely, entail a material financial loss or reporting error shall be rated by the auditor as a **medium Priority**;
- Matters of **low importance** regarding control environment, accounting policies or practices or comments relating solely to local reporting matters shall be rated by the auditor as a **low Priority**.

Findings and Recommendations

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

Review Report Template

Financial Information Review of the Project/Program for the period of xy 20XX

(name of project/program, project- and contract-number, period of financial statement)

Name and address of FDFA's Partner

Name and address of Auditor

Independent auditor's report

ISRE 2400

*Partner's address
and name of responsible person*

Report on the financial information

We have reviewed the accompanying financial information of the *Partner's name for the project/program period of*

Background of the mandated organization

Short description of the general background of the partner organization:

Project objectives

Short description of the project objectives:

Objectives of the review are:

The auditor is required to plan, execute and report on the financial review engagement according to the FDFA Standard Terms of Reference in order to conclude on the following matter:

- **Principles of orderliness (financial regularity/reporting)**

Management's responsibility

These financial statements are the responsibility of the Partner's management. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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 responsibility

Our responsibility is to issue a report on these financial statements based on our review. We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not prepared, in all material respects, in accordance with generally accepted accounting principles.

PRACTITIONER, Address

Date

Annex:

- Financial Statement
- Management Letter