

Annex IV

Sida's Standard Terms of Reference for Annual Audit of Project/Programme Support

The red text is help text and **must** be deleted before the terms of reference is annexed to the agreement. The blue text is text to be replaced.

Replace [cooperation partner] with the name of the cooperation partner, as well as other text marked with blue. If the audit will include an additional assignment according to agreed upon procedures ISRS 4400, paragraph II **must** to be tailored by specifying the areas to be reviewed by the auditor. If agreed upon procedures are applicable, the reporting requirements in paragraph III must be adjusted to include the 'Report on factual findings'.

Introduction

Brief presentation of [cooperation partner]:

[The cooperation partner] wishes to engage the services of an audit firm for the purpose of auditing the [name of the project programme], as stipulated in the agreement between [cooperation partner] and Sida. The audit shall be carried out in accordance with international audit standards issued by IAASB¹. The audit shall be carried out by an external, independent and qualified auditor.

I. Objectives and scope of the audit

The objective is to audit the financial report for the period [year-month-day to year-month-day] as submitted to Sida and to express an audit opinion according to ISA 800/805 on whether the financial report of [name of project programme] is in accordance with Sida's instruction for financial reporting as stipulated in the agreement including appendix between Sida and [cooperation partner].

¹ The International Auditing and Assurances Standards Board (IAASB)



II. Additional assignment; according to agreed upon procedures ISRS 4400, review the following areas in accordance with the Terms of reference below

List any additional areas to be examined by the auditor, e.g. following up on weaknesses identified in previous efficiency audits or reviews of internal management and control. Observe that if the budget includes salary costs that will be debited to the project/programme, agreed upon procedures ISRS 4400 (for information about ISRS 4400 as a standard, see the Audit Handbook) shall always be conducted and include a review whether these costs have been recorded in a systemized manner that allows for following-up. The size of the sample for the auditor to review under an additional assignment according to agreed upon procedures 4400 need to be specified in the terms of reference.

OBSERVE! The areas of review below are **examples** and must be adjusted to the specific project/programme based on what is applicable and relevant in accordance with the appraisal phase and risk analysis. Consult your controller regarding relevant areas of review:

- Follow up whether salary costs debited to the project/programme are recorded throughout the duration of the year in a systemized way and examine whether the salary costs can be verified by sufficient supporting documentation.²
- Examine whether the financial report includes a comparison, for every budget item, between the actual costs/expenditures of activities and the budgeted costs/expenditures as approved by Sida for the period.
- Based on materiality and risk the auditor shall examine whether there is supporting documentation related to incurred costs
- Follow up whether [cooperation partner] has implemented the following recommendations from the assessment of internal control: [xxx], [xxx] and [xxx]. The examination includes reviewing whether [cooperation partner] has implemented the action points as described in [cooperation partner]'s management response that has been submitted to Sida.
- Examine whether foreign exchange gains and losses are disclosed in accordance with what is stipulated in the agreement including appendixes.
- [cooperation partner]'s compliance with the applicable tax legislation in regard to taxes (e.g. PAYE)³ and social security fees.
- Follow up whether [cooperation partner] has adhered to the procurement guidelines annexed to the agreement.

² If the budget includes salary costs to be debited to the project, the auditor shall always examine salary costs as stipulated here.

³ Pay As You Earn

- Review if outgoing balance for previous period is the same as incoming balance for the current period.
- If [cooperation partner] applies modified cash basis as accounting principle, the auditor shall motivate whether the applied accounting principle is acceptable for this type of financial report.

Follow up of funds that are channelled to implementing partners

The sample test's size of the review of agreements and audit reporting from implementing partners **must** be specified.

- Does [cooperation partner] have signed agreements with its partner organisations?
- Are the audit requirements in agreements with partner organisations in accordance with the audit requirements as stipulated in [cooperation partner]'s agreement with Sida?
- Review whether there is an unbroken chain of audited financial reports according to the requirements as stipulated in the agreement between [cooperation partner] and Sida, for funds disbursed the previous year. The review shall include whether [cooperation partner] makes documented assessments of the audited financial reports submitted to [cooperation partner] and whether these reports are followed-up by [cooperation partner]. The review shall include verification of contributions equivalent of a minimum of [X] % of the total of disbursed funds as well as [X] % of the number of contributions. The review shall also include any observations from auditors that Sida should be informed about.
- Are the same requirements for reporting exchange rate gains/exchange rate losses as stipulated in the agreement between [cooperation partner] and Sida, included in the agreements between [cooperation partner] and its implementing partners?

III. The reporting

The scope of the audit shall be stated in the report and the methodology used shall be presented.

The reporting shall be signed by the responsible auditor (not just the audit firm) and title.

The reporting from the auditor shall include an independent auditor's report in accordance with the format in standard ISA 800/805 and the auditor's opinion shall be clearly stated, as well as a Management letter with audit findings and



weaknesses identified during the audit process. The auditor shall regardless of materiality, quantify the amount for costs lacking sufficient supporting documentation. The auditor shall make recommendations to address the weaknesses identified and the recommendations shall be presented in priority order. If the auditor assesses that no findings or weaknesses have been identified during the audit that would result in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

Measures taken by the organisation to address weaknesses identified in previous audits shall also be presented in the Management Letter.

The reporting requirement listed below are only applicable if the assignment involves an agreed upon procedure in accordance with ISRS 4400.

The additional assignment according to agreed upon procedures ISRS 4400 under paragraph III, shall be reported separately in a "Report of factual findings".

If the auditor conducts an additional assignment according to ISRS 4400 and assesses that the observations presented in the "Report of factual findings", include the information that would have been included in a Management Letter, a Management Letter does not need to be developed. In such a case, the "Report of factual findings" shall include an explanation of why a Management Letter has not been developed.

Handwritten signatures in blue ink at the bottom right of the page. There are two distinct signatures, one appearing to be a stylized 'M' and the other a more complex set of initials.