



# RL ToR for Financial Audits of Programme

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The Financial Information of the Country Programme shall be audited in accordance with International Standards on Auditing (ISA 805) "Special Considerations Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement".

## 1 Fundamental principles

The auditor will be selected, mandated and paid directly by the Headquarters of the Pestalozzi Children's Village Foundation (PCF). The respective audit fees shall be budgeted at the Headquarters and not within the Country Programme budget.

The financial audit of Country Programmes is to be carried out by an independent auditor, having the required professional competence and experience (e.g., Certification by National Audit Oversight Authority), and in accordance with International Standards on Auditing (ISA). The auditor must not have privileged ties with persons responsible for the programme or with the organisation to be audited.

These Terms of Reference (ToR) define the mandate of the auditor in connection with the financial audit of the PCF Country Programme. PCF is co-funded by the Swiss Federal Department of Foreign Affairs (FDFA) and other back-donors. Therefore, these ToR are aligned to the FDFA ToR and annexes.

In planning, conducting and reporting on the financial audit, the auditor must follow the ISA 805. 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 audit is carried out need to be taken into consideration by the auditor.

## 2 Overall principles of the procedures

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

**2.1 Principles of orderliness (financial regularity/reporting)** through the control and evaluation of the exactness, exhaustiveness and fairness of the various accounting transactions, either in full or by sampling, according to need and risk evaluation (before and during the course of the audit).

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 audit engagement in accordance with ISA as mentioned above):

**2.2 Existence, adequacy and effectiveness of the Internal Control System (ICS)**

**2.3 Conformity with the programme 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 must analyse the questions mentioned in the annexed Questionnaire (Annex 1). While item 2.1 will be reflected in the audit report prepared in accordance with ISA, 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).

The audit shall verify the consideration of audit findings and recommendations stemming from previous audit reports and management letters and include them in the Management Letter if they have not been considered.

## 3 Documents of reference

The following documents are considered as basic references for carrying out the mandate:

- national legislation, particularly as concerns the field of finance and the control of accounts;
- PCF Financial Procedures and Country Offices' Financial Manual;
- all contracts relative to the Country Programme;
- the present mandate and terms of reference for local audits;
- Country Programme financial plans and action plans;
- accounting documents subject to the audit;
- financial and activity reports concerning the Country Programme and Core Competence Packages (CCP);
- prior internal and external audit reports;
- preceding management letters;
- any other documents concerning the Country Programme;
- any other information requested by the auditor.

## 4 Planning the financial audit

The auditor shall adequately plan the financial audit engagement well in advance of the work and ensure the execution of the financial audit 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.

Based on 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 ensures continuity in the audit approach of the financial audit 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 the financial audit

The financial audit is to be carried out at the programme environment (administrative office and/or decentralised sites, if applicable).

## 6 Management representation of full disclosure

**The auditor shall obtain written declarations (e.g., representation letters, engagement letters) signed by the Country Representative of the Country Programme, certifying:**

- the acknowledgement of the organisation'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 Country Programme, the documents of reference (description of the Country Programme, contracts, budgets, etc.) and national legislation;
- that all accounting records, supporting and other documents, minutes and any pertinent information necessary for the audit be at the disposal of the auditor;
- the completeness of information concerning property and goods (incl. depreciation chart);
- the completeness of information concerning financing received or due and own financing concerning the audited period, for the programme being audited and for the examination of the consolidated financial statements of the organisation (incl. amount earmarked for provident funds);
- the availability for supplying any information and explanations, by written confirmation, which might be required by the auditor in the execution of his mandate;
- in the case of contributions to local NGOs, the declaration must certify the completeness of information concerning financing received or due and own financing concerning the audit period, for the programme being audited and for the examination of the consolidated financial statements of the organisation. The consolidated financial information, including balance sheets and profit and loss statements 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 audit procedures

When selecting the audit procedures, the auditor shall consider the results of his risk assessment (during planning stage and during the course of the 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.

In order to respect the principles mentioned under Article 2 above, the auditor must analyse the questions in the annexed Questionnaire (Template Annex 1). Any answers with "no" must be taken up as recommendations in the Management Letter (Template Annex 2).

In addition, the audit procedures shall include:

- verification that the Country Programme's financial and narrative plans as well as the staff's contracts and salary sheets have been respected;
- verification of the funds received for the programme and reconciliation with the corresponding lists supplied by the PCF Headquarters;
- verification of the physical movements of the goods representing the property of PCF (fixed assets, non-activated inventory in the balance sheet, current assets);
- verification that goods purchased with allocated funds within the framework of the implementation of the Country Programme are utilised within the foreseen outcome and outputs and are still available or have been ceded/sold in conformity with the methods defined in the Financial Manual;

- verification that expenditures correspond to the budget as accepted by the Programme Director (as stated in the corresponding annual budget and annual action plan). Brief analysis of the deviations between budgeted and effective expenses. Investigation through the Country Representative of the justification for important budget deviations (+/- 10 % of the budget);
- verification of the existence and application by the Country Representative and Programme Director of adequate measures of internal control in respect to the utilisation of committed resources as described in the “RL Financial Procedures for Country Offices”
- verification of administrative procedures relative to the various transactions and the application thereof. In particular, verification of the repartition of competences and responsibilities (commitments, posting of expenditures, reconciliation of cash, follow-up on debtors and creditors, inventories, etc.), judging their efficiency, signalling discovered weaknesses;
- verification of the existence and respect of purchasing procedures. If necessary recommendations for the improvement of existing procedures to guarantee, as much as possible, the best quality/price ratio. Verification that prices and rates conform to local practice;
- verification of the Country Programme’s transactions under the following aspects :
  - conformity of expenditure authorisations and validity of the supporting documents,
  - arithmetic exactness of the accounts, supporting documents and financial statements,
  - exactness of the bookkeeping entries,
  - allocation of expenditures in conformity with the budget(s),
  - financial statements in agreement with the accounts,
  - verification that local contracts are in conformity with local legislation currently in force,
  - verification that receipts are exhaustively and regularly accounted for,
  - control of advances, accrued or in abeyance, justification for amounts on the books for more than one month before closing,
  - general verification of bookkeeping,
  - any other verifications that the auditor may consider useful in the execution of his/her mandate.
- verification that PCF paid all due taxes in a timely fashion to the competent tax authorities for the period under review.
- verification that all corrections required from any previous audit have been carried out.

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

Upon receipt of the financial audit report, PCF or any third persons designated by the FDFA or PCF reserve the right to request other audit procedures to cope with the change in circumstances in the Country Programme.

## **8 Closing meeting**

After completion of the audit, but before leaving the Country Office’s premises, the auditor shall hold a closing meeting with the Country Representative responsible for the programme and the Finance and Administration Officer. The meeting shall address the results of the audit, bring up significant weaknesses in the programme, administrative and financial management (including the deficiencies of individual staff members) and propose recommendations to improve the financial management, the accounting procedures and the internal control system. The content of the closing meeting will be transcribed in the form of minutes and signed by the participants. These minutes shall be annexed to the audit report.

## **9 Audit Report**

### **Content**

- General description of the audited organisation and programme, outcomes and outputs of the period covered by the audit
- Certification of the auditor that the audit was conducted according to ISA 805
- Objectives and extent of the audit
- Declaration of full disclosure delivered by the Country Representative
- Financial statements of the Country Programme and opinions thereof, including
  - Balance sheet of the Country Programme
  - Profit and loss statement of the Country Programme (clearly reflecting, should it be the case, the capital contributed by each donor during the accounting period)
  - Statement of source and application of funds of each donor

- Opinion of the auditor on the financial statements of the Country Programme, indicating if they are in all respects a true and correct representation of the expenditures incurred and the revenue obtained and conform to generally accepted accounting principles
- Budget comparison of the Country Programme, including comments on important deviations, and Core Competence Package (CCP) reports
- List of investments, furniture and equipment acquired during the accounting period
- Funds received from PCF and yearend balance of PCF funds. If the transfer currency is different than the local currency, the funds received by PCF must be stated in the currency received and the amount exchanged in the local currency.
- Consolidated financial statements of the organisation (if applicable), including
  - Consolidated balance sheet of the organisation
  - Consolidated profit and loss statement of the organisation
  - Receipts and payment accounts
  - Chart showing the financial situation of each donor's contribution to the organisation
  - Opinion of the auditor on the consolidated financial statements
- Summary of the structure of the internal control system and its operation, opinion on the internal controls, recommendations
- Report on the respect of the contract clauses
- Remarks, propositions and recommendations
- Minutes of the closing session of the audit

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 audit report.

#### **Form**

- The financial information is expressed according to the currency of the budget and all the documents are written in English or Spanish.
- The audit report is signed by the person responsible for the audit referring to financial statements (incl. relevant annexes) and signed by the legal representative of the Country Programme.
- The report alongside with the invoice is to be sent directly to the Programme Director of PCF in Switzerland. A second exemplary of the report is provided to the Country Representative.

### **10 Financial audit deliverables**

- The audit report as per ISA 805
- The answers to the questionnaire (Annex 1)
- The recommendations to the management according to the Management Letter (Annex 2)
- The management representation letter
- The minutes of the closing meeting

### **11 Time frame and payment**

- The audit report must be approved by the Programme Director and the final report delivered to PCF Headquarters by 31 March at the latest.
- The audit fee will be paid within 30 days after the audit report has been accepted by the Regional Programme Director of PCF.
- PCF reserves the right to deduct up to 10% of the total fee for each week of delay in case the auditor fails to deliver the final audit on time.

**12 Conservation of working documents**

The auditor will keep and preserve all internal working documents for a period of ten years as of the completion of the audit, even if local legislation prescribes a shorter period.

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

For the Country Programme: \_\_\_\_\_

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: Example of Audit Report