

Version 1.2 of November 2021

Annex [specify]

Sida's Standard Terms of Reference for Annual Audit of Project/Programme Support including ISRS 4400

Introduction

The [cooperation partner], hereafter referred to as 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 the Cooperation partner and Sida. The audit shall be carried out in accordance with international audit standards (ISA) issued by IAASB¹. In addition, an assignment according to International Standards on Related Services (ISRS) 4400 shall be carried out. The audit and the additional assignment 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, applying ISA 800/ISA 805, on whether the financial report of [name of project/programme] is in accordance with the Cooperation partner's accounting records and Sida's requirements for financial reporting as stipulated in the agreement including appendices between Sida and Cooperation partner (Agreement).

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

Mandatory procedures that must be included:

¹ The International Auditing and Assurance Standards Board (IAASB)

1. Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget².
2. Observe and inspect whether the financial report provides information regarding:
 - a) Financial outcome per budget line (both incomes and costs) for the reporting period and columns for cumulative information regarding earlier periods under current agreement.
 - b) When applicable, compare if the opening fund balance³ for the reporting period matches with what was stated as closing fund balance in the previous reporting period.
 - c) A disclosure of exchange gains/losses. Inquire and confirm whether the disclosure includes the entire chain of currency exchange from Sida's disbursement to the handling of the project/programme within the organisation in local currency/ies, if applicable.
 - d) Explanatory notes (such as, for instance, accounting principles applied for the financial report).
 - e) Amount of funds that has been forwarded to implementing partners, when applicable.
3. a) Inquire and inspect with what frequency salary costs during the reporting period are debited to the project/programme.

Choose a sample of three individuals for three different months and:

- b) Inquire and inspect whether there are supporting documentation⁴ for debited salary costs.
 - c) Inquire and inspect whether actual time worked is documented and verified by a manager. Inquire and inspect within which frequency reconciliations between debited time and actual worked time is performed.
 - d) Inspect whether the Cooperation partner comply with applicable tax legislation with regard to personal income taxes (PAYE)⁵ and social security fees.
4. a) Inspect and confirm that the unspent fund balance (according to the financial report) at the end of the financial year is in line with information provided in the accounting system and/or bank account.

² The budget is attached to the agreement with Sida as an annex and any updates should be supported by a written approval by Sida.

³ I.e. funds remaining from disbursements made during previous reporting period/s

⁴ Debited salary costs should be verified by supporting documentation such as employment contracts.

⁵ Pay As You Earn

b) **Applicable the final year:** Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that shall be repaid to Sida.

Follow up of funds that are channelled to implementing partners

Mandatory assignments that must be included if the Cooperation partner forward funds to implementing partners (IP's):

Choose a sample of a minimum of 50 % of the total of disbursed funds as well as 100 % of the number of IP's or a maximum of 10 IP's.

2.1 Inspect and confirm whether the Cooperation partner has signed agreements with the selected IP's.

2.2 Inspect and confirm whether the Cooperation partner, in all agreements entered with IP's, included the requirement to carry out annual audits. The requirement shall specify that these audits shall be carried out with application of ISA (reporting according to ISA 800/805) and a separate assignment according to ISRS 4400 should be included for project/programme support. If agreements regarding core support are entered into with IP's, the audit shall be conducted in accordance with ISA 700 or National standards on auditing.

2.3 Inquire and inspect whether the Cooperation partner has received financial reports and reportings from auditors from all IP's included in the selected sample:

a) Inquire and inspect whether the Cooperation partner has verified if reports from IP's are in line with the requirements in the Agreement.

b) Inquire and inspect whether the Cooperation partner has documented its assessment of the submitted financial reports and reporting from auditors including management responses and action plans from selected IP's.

c) Inquire and inspect whether the Cooperation partner has documented its follow-up actions based on the information provided in the financial reports and the reporting from the auditor of the selected IP's.

d) Inquire and inspect whether the Cooperation partner has reported substantial observations⁶ from selected IP's audit reports in its communication with Sida. List observations⁷ from IP's audit reports which have been part of this sample.

⁶ Deemed substantial by the Cooperation partner.

⁷ Observations included in Management Letters and if applicable, qualified audit reports.

III. The reporting

The reporting shall be signed by the responsible auditor (not just the audit firm⁸) and shall include the title of the responsible auditor.

Reporting from the ISA assignment

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. The financial report that has been the subject of the audit shall be attached to the audit report.

The reporting shall also include a Management letter that discloses all audit findings, as well as weaknesses identified during the audit process. The auditor shall make recommendations to address the identified findings and weaknesses. The recommendations shall be presented in priority order and with a risk classification.

Measures taken by the Cooperation partner to address weaknesses identified in previous audits shall also be presented in the Management Letter. If the previous audit did not have any findings or weaknesses to be followed-up on, a clarification of this must be disclosed in the audit reporting.

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.

Reporting from the ISRS 4400 assignment

The additional assignment according to agreed upon procedures ISRS 4400 under section II, shall be reported separately in an "Agreed-upon procedures report". Performed procedures should be described and the findings should be reported in accordance with the requirements in the International Standard on Related Services 4400.

When applicable, the sample size shall be stated in the report.

⁸ If the audit firm is obliged to sign, refer to relevant legislation. Sida still needs to know who has been responsible for the audit assignment.