

Sample Terms of Reference for the Audit of Project XXXX

Based on Annex 6 of the IFAD Guidelines on Project Audits: Sample of terms of reference (tor) for audit of project financial statements and accompanying statement of expenditures (soe) and special account (sa)/designated account (da).

The following are the terms of reference ('ToR') on which **the Lead project Agency (LPA)** agrees to engage **audit firm** 'the Auditor' to perform an Audit and to report in connection with the Agreement with the International Fund for Agricultural Development (IFAD) concerning **the project XXX** where in these ToRs the 'Contracting Authority' is mentioned this refers to **IFAD** which has signed the Agreement with the **Recipient/Borrower** and finances the services. The Contracting Authority is not a party to this engagement.

1.1 Responsibilities of the Parties to the Engagement

Recipient/Borrower refers to the entity that provides the services and that has signed the Agreement with the Contracting Authority.

- The PIU/LPA is responsible for providing a Financial Statements for the services financed by the Loan/ Grant and for ensuring that these Financial Statements can be properly reconciled to the PIU/LPA records and accounts in respect of these services.
- The PIU/LPA accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the PIU/LPA providing full and free access to its staff and records and accounts.
- The PIU/LPA shall provide the auditors with all the necessary documentation to perform the assignment properly; in particular the following information shall be provided to the auditors before the beginning of the assignment:
 - a) Project Agreement;
 - b) Annual Progress Report;
 - c) Project Implementation Manual;
 - d) Financial Management Manual;
 - e) Organizational charts along with names and titles of senior managers;
 - f) Names and qualifications of officers responsible for financial management, accounting and internal audit.
 - g) Description of information technology facilities and computer systems in use and
 - h) Copies of the minutes of negotiations, the project design document, the annual work programme and budget and the letter to the borrower if available.

'The Auditor' refers to the Auditor who is responsible for performing the agreed-upon procedures as specified in these ToR, and for submitting a report of factual findings to the PIU/LPA.

The Auditor shall provide:

- **A separate opinion on Project Financial Statements (PFS)**

Minimum content of the PFS:

- a) Yearly and cumulative statements of sources and application of funds, which should disclose separately IFAD's funds, other donors funds and beneficiaries funds;
- b) Statement of sources and application of funds.

- c) Yearly and cumulative SOEs by withdrawal application and category of expenditures; reconciliation of the SA.
 - d) Reconciliation between the amounts shown as received by the project and those shown as being disbursed by IFAD should be attached as an annex to the PFS. As part of that reconciliation the auditor will indicate the procedure used for disbursement (SA funds, letters of credit, special commitments, reimbursement or direct payment) and indicate whether the expenditure is fully documented or uses the Summary of Expenditures format.
 - e) Notes accompanying the Financial statements
 - f) Cumulative status of funds by category
 - g) A statement of comparison between the actual expenditures and the budget estimates
 - h) Full disclosure of cash balances and
 - i) Other statements or disclosures relevant to the project .e.g. financial monitoring reports, credit lines etc.
- **A separate opinion on the use of the Designated Accounts/Special Accounts (DA/SA);** The auditor is also required to audit the activities of the DA/SA associated with the project including the initial advance, replenishments, interest that may accrue on the outstanding balances, and the year-end balances. The auditor must form an opinion as to the degree of compliance with IFAD procedures and the balance of the DA/SA at year end. The audit should examine: (i) the eligibility of withdrawals from the DA/SA during the period under review; (ii) the operation of the DA/SA in accordance with the relevant financing agreement; (iii) the adequacy of internal controls within the project appropriate for this disbursement mechanism; and (iv) the use of correct exchange rate(s) to convert local currency expenditures to United States dollars.
- **A separate opinion on Withdrawal Application Statement / Statement of expenditures / Summary of Expenditures (SOEs);** the audit will include a review of SOEs used as the basis for submitting withdrawal applications. The auditor will carry out tests and reviews as necessary and relevant to the circumstances. SOE expenditures will be carefully compared for eligibility with relevant financial agreements, and the disbursement letter, and with reference to the project appraisal report for guidance when necessary. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, auditors will note these separately. A schedule listing individual SOEs withdrawal applications by reference number and amount should be attached to the PFS. The total withdrawals under the SOE procedure should be part of the overall reconciliation of IFAD disbursements described above. The auditor's opinion should deal with the adequacy of the procedures used by the project for preparing SOEs and should include a statement that amounts withdrawn from the project account on the basis of such SOEs were used for the purposes intended under the agreement.
 - **A separate management letter addressing the adequacy of the accounting and internal control systems of the Programme, including compliance with IFAD's Procurement Guidelines and such other matters as IFAD may notify the PIU/LPA to include in the audit.**

The auditor is requested to:

- a) Comment on economy, efficiency and effectiveness in the use of project resources;
- b) Comment on achievement of planned project results;
- c) Comment on legal and financial obligations and commitments of the project and the extent of compliance or non-compliance thereof;

- d) Comment on systems and procedures such as improvements in accounting, information technology or computer systems, and operations that may be under development, on which the auditor's comments are necessary to ensure effective controls;
- e) Comment on other activities on which an auditor may consider it appropriate to report

- **Auditors shall certify :**

- a) Whether the PFS are drawn up in conformity with international accepted accounting standards (IFRS or IPSAS)
- b) Whether the PFS are accurate and are drawn up from the books of accounts maintained by the Project.
- c) Whether the provisions of the Project Agreement are adhered to.
- d) Whether Procurement has been undertaken by the Project in accordance with **Article VI** of the Project Agreement,, IFAD's Procurement Guidelines
- e) Carry out a physical verification of any significant assets purchased and confirm their existence and use for project purposes.
- f) Whether the project has an effective system of financial supervision or internal audit at all levels.
- g) Whether the expenditure claimed through SOEs are properly approved, classified and supported by adequate documentation.
- h) The Auditor is a member of the International Federation of Accountants (IFAC).

1.2 Subject of the Engagement

The subject of this engagement is the financial statements of the years **20XX, 20XY, and 20XV** for the **IFAD Loan XXX and Grant XXX**. The information, both financial and non-financial, which is subject to verification by the Auditor, is all information which makes it possible to verify that the expenditures claimed by the **PIU/LPA** in Financial statements have occurred, and are accurate and eligible.

1.3 Reason for the Engagement

The **PIU/LPA** Service Provider is required to submit to the Contracting Authority an Audit report produced by an external auditor.

1.4 Engagement Type and Objective

This constitutes an engagement to perform specific agreed-upon procedures following the IFAD Guidelines on Project Audits provided to the Auditors by the **PIU/LPA** in Annex 1 of these TOR. The objective of this audit is for the Auditor to verify that the expenditures claimed by the **PIU/LPA** in the financial statements for the services covered by the Agreement have occurred ('reality'), are accurate ('exact') and eligible and to submit to the **PIU/LPA** a report of factual findings with regard to the agreed-upon procedures performed. Eligibility means that expenditure have been incurred in accordance with the terms and conditions of the Agreement.

1.5 Scope of Work

1.5.1 The Auditor shall undertake this engagement in accordance with these Terms of Reference and:

- in accordance with the International Standard on Audit (ISA) to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
- In compliance with the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants.
- In accordance with International Standards on Auditing and in line with IFAD's Guidelines for Project Audits.

1.5.2 The Terms and Conditions of the Agreement

The Auditor verifies that the funds provided by the Agreement were spent in accordance with the terms and conditions of the Agreement.

1.5.3 Planning, procedures, documentation and evidence

The Auditor should plan the work so that effective audit can be performed. For this purpose he performs the procedures specified the IFAD Guidelines on Project Audits and he uses the evidence obtained from these procedures as the basis for the report of factual findings. The Auditor should document matters which are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance with ISA and these ToR.

1.6 Reporting

The report on this audit should describe the purpose and the agreed-upon procedures of the engagement in sufficient detail in order to enable the **PIU/LPA** and the Contracting Authority to understand the nature and extent of the procedures performed by the Auditor. Use of the financial and audit reporting is compulsory.

1.6.1 Periods covered

The reports on this audit should cover the following:

- a) **IFAD Loan XXX and Grant XXX** for the years 20XX
- b) **IFAD Loan XXX and Grant XXX** for the years 20XY
- c) **IFAD Loan XXX and Grant XXX** for the years 20XV

Reports covering items **a** must be delivered no later than 120 calendar days as of the date of signing the agreement.

Reports covering items **b and c** must be delivered within **4** months after the end of the respective fiscal year .