

TERMS OF REFERENCE FOR LOCAL AUDITS

(For Project 1805VN160, funded by Solidaritätsdienst International e.V. (SODI), managed by DWC)

1. Fundamental principles

- 1.1 The audit will be carried out by an **independent** auditor (one who does not have privileged ties with persons responsible for the project or with the organization to be audited). The Auditing Firm shall provide to the Project Partner a proof of the authorization or registration as an auditor firm.
- 1.2 In planning, conducting and reporting on the audit, the auditor shall be given due considerations to the following generally accepted **international standards**, as well as applicable **national standards** in the country in which the mandate is carried out:
- ISA - *International Standards on Auditing*
IFAC – *International Federation of Accountants*

2. Objectives of the audit

The objectives of the audit are:

- 2.1 **Examination of the financial regularity**, 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);
- 2.2 **Examination of the conformity with project objectives and observance of the contract conditions**, through the control and evaluation of transactions, expenditures and receipts compared with the basic project documents (project description, programs of activities, contracts, budgets, etc.);
- 2.3 **Examination of the economical conduct of business and effective use of financial resources**, through the control and evaluation of
- a) minimization of the cost of the resources utilized for the activities, always ensuring an appropriate quality
 - b) comparison of expenditures with corresponding budget positions and the control and evaluation of any explanations for divergences;
- 2.4 **Examination of the appropriateness, the relevance and the functioning of the Internal Control System**, through the control and evaluation of the
- a) internal organization (structures, functions, tasks, authority, responsibilities, methods, procedures, etc.),
 - b) existence, respect and application of laws, regulations and instructions
 - c) protection of resources and assets
 - d) prevention of errors and fraud
 - e) quality and viability of the information system and the reporting

3. Documents of reference

The following documents are considered as basic references for the carrying-out of the audit:

- Legislation:** - National legislation, particularly as concerns the field of finance and the control of accounts;
- Project:** - Cooperation agreements relative to the project or to the audited organization;
- Project document, terms of reference for local audits;
- Budgets, financing plans, programs of project activities;
- Project management procedures;
- Any other documents concerning the project.
- Accounting** - Accounting documents subject to the audit;
- Financial and activity reports concerning the project;
- Any other information requested by the Auditor.

4. **Planning the audit**

The auditor shall plan his program so as to ensure that an audit of high standards is accomplished in an economic and efficient manner and within the stipulated time.

On the basis of the information received during the planning phase, the auditor will determine:

- the type of transactions to be controlled and the audit method (full or random sample);
- the type of physical controls and corresponding date(s);
- the number of planned site visits.

5. **Detailed description of the audit**

5.1. **Obtaining the declaration of full disclosure to be supplied by the management of the audited organization**

The auditor shall obtain a written declaration signed by the management of the audited 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 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 audited
- e) the availability for supplying any information and explanations, either orally or by written confirmation, which might be required by the auditor in the execution of his mandate.

5.2. **General controls**

The Auditing Firm's assignment shall include the following tasks:

- To examine the Financial Statement of the Project and give an opinion thereon;
- To examine the systems of internal control established by the Project Partner;

- To verify that a separate bank account is kept exclusively for the project as required by the Agreement of Cooperation, and, if applicable, to examine any further bank accounts related to the Project (e.g. for revolving funds or deposits);
- To examine whether the signatories on the bank account have been approved and authorized by a person/persons within the Project Partner's organization with sufficient power to give that authority;
- To examine whether there have been any change regarding staff with authorization to legally represent the Project Partner;
- To examine income for the Project, to verify especially the accuracy and completeness of records and evidence of the proper recording of exchange transactions from foreign into national currency; to examine whether any exchange gains or interest were accrued on amounts transferred by the Financing Partner and in that case to examine whether the exchange gains or the interest were properly declared and used for project purposes;
- To examine whether the local and/or third-party contributions to be provided as part of the Project have actually been received, duly shown in the books, and properly used for the financing of Project expenditure; to verify information on income which was due but was actually received after the end of the period under review from local and third-party contributions, if any; as to local contributions, only those made in monetary terms should be shown. Where non-cash contributions (e.g. voluntary labor, contributions in kind) have been provided, these should be shown separately;
- To identify whether any provisions and reserve funds have been created from amounts disbursed to the Project Partner by the Financing Partner and if so, whether the consent of the Financing Partner to do so have been obtained; to confirm that on completion of the project any existing provisions and reserve funds have been dissolved and duly used for project purposes;
- To verify, in cases where the Financial Statement has been prepared on an accruals basis, that a complete and accurate reconciliation between the fund balance and the cash balance is included in the Financial Statement;
- To verify that no depreciation, imputed or notional costs are charged to the Projects;
- To examine the payroll of the project staff and lists of experts and advisory fees paid and to verify that deductions of income tax, social security, insurance and welfare scheme and any other amounts from staff pay have been properly calculated and duly remitted to the local government or other authority/body/organization in accordance with applicable legislation;
- To verify that relevant local/national laws and regulations have been complied with;
- To carry out, where applicable, a physical inspection – or equivalent procedures – of the Project and its assets and in doing so to examine the inventory of all movable assets of a value exceeding EUR 410 purchased with project funds and to verify that they are used for the purpose of the project;
- To examine, in cases where immovables were purchased or buildings were erected as part of the Project, title of ownership or of right of disposal and to find out whether any encumbrances or obligations to third parties were created, also to verify that they are being used for the agreed purpose;
- To verify that proper procedures of competitive tenders and quotations have been followed for the purchase of goods or services (including the value of building contracts);

- To examine the lending procedures in cases where a micro-credit fund is included in the Project (e.g. verification of loan disbursement, terms and conditions and purpose of loan); to check in particular that the Financial Statement includes only the first disbursement of loans. Repayments and re-utilizations are part of the revolving fund which requires a separate bank account.
- To verify that the obligation to furnish evidence has been fulfilled; to verify notes regarding the Financial Reports and the accounting and valuation methods (policies) for: accounting type, exchange rates, interests and all other important areas;

5.3. Place of audit

The audit must be carried out within the project environment (administrative offices, local sites if necessary).

5.4. Closing session of the audit

After completion of the audit, but before leaving the project or organization headquarters, the auditor will hold a closing session with the persons responsible for the project (directors) and the concerned staff. The session will address remarks and the results of the audit, bring up significant weaknesses in the administrative and financial management (including the authority of individual staff members) and will propose solutions to the problems brought out during the audit.

5.5. General approach of the auditor

The auditor undertakes to ensure continuity in the approach to and in the method of the audit, even if there is a change in the person carrying out the physical audit.

6. Audit Report

6.1 Content:

- 6.1.1 Brief description of the audited organization and project, objectives of the project, period covered by the audit.
- 6.1.2 Objectives and extent of the audit.
- 6.1.3 Declaration of full disclosure delivered by the project management or the organization audited.
- 6.1.4 Opinion of the auditor on the financial statements of the project upon the following:
 - a. whether the Agreement of Cooperation has been adhered to,
 - b. whether the Project Funds have been used exclusively for the purposes of the Project in accordance with the Agreement of Cooperation, and the Implementing Rules,
 - c. whether the Financial Statement reflects a true and fair view of the financial affairs of the Project.

If the Auditing Firm is obliged to qualify the opinion or to report on exceptions referring to a) and b) above, full reasons shall be given. The Auditing Firm shall report all material findings within the Audit Report or in an enclosure referred to in the Audit Report.
- 6.1.5 Financial statements of the project.
- 6.1.6 Budget comparison of the project, including comments on important deviations

- 6.1.7 List of inventory acquired by the project during the accounting period.
- 6.1.8 Summary of the structure of the internal control system and its operation, opinion on the internal controls, recommendations.
- 6.1.9 Report on the respect of the contract clauses.
- 6.1.10 Management Letter

- The Auditing Firm shall report their observations about the system of accounting and internal controls, together with a detailed list of any significant weaknesses that come to the Auditing Firm's attention during the course of audit. The report includes recommendations as to how these weaknesses may be eliminated and how controls and records might be improved.
- The report shall be drafted in a way to provide a comprehensible statement of essential revealed misrepresentations in the financial report or in the books of account (including fraud, mistakes or non-compliance with legal regulations). It is not the subject of the Audit Report to audit all the books of account, however any false statements detected by the auditor during the course of the audit shall be documented as part of the management letter and the Auditing Report.

6.2. Currency and language of the audit report

The financial information contained in the audit report is to be expressed in VND. All the documents are written in Vietnamese and English.

6.3. Signature

The audit report is signed by the person responsible for the audit, as well as by the legal representative of the firm of auditors.

7. Conservation of working documents

The auditor will correctly 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.

Date:
For DWC:

Date:
For the Auditor:

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