



PROGRAMUL DE COOPERARE ELVEȚIANO-ROMÂN
SWISS-ROMANIAN COOPERATION PROGRAMME

ToR External Audit of Project Accounts for the Swiss Partner/s

(adapted from „Terms of Reference for the external audit of project accounts at the contract partner's head office”, February 2010)

I. Basis

1. Fundamental considerations

- 1.1. The external financial audit of the project accounts ("accounts") of the Swiss EA must be performed by an independent firm of certified accountants (hereafter referred to as "auditors") who hold the requisite professional qualifications and are able to demonstrate extensive experience in auditing (CH: certification by Federal Audit Oversight Authority (Revisionsaufsichtsbehörde/RAB). The audit must be performed in accordance with the applicable Swiss auditing standards of the Swiss Institute of Certified Accountants and Tax Consultants (PS) or according to the principles of the International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC).
- 1.2. These TORs describe the audit mandate for auditing the accounts agreed on between the SIB and the contract partner.

2. Principles of accounting

The Federal Law on Federal Finances (Federal Finances Law – FHG) dated 7 October 2005 governs the management of finances at the Federal Administration level as well as the accounting of the Swiss Confederation, and is hence binding for SDC and the SIB. One of the aims of the FHG is to promote the economical and effective use of public funds (Art. 1 FHG). The law sets down the criteria for financial management at the administration level as well as the principles of accounting, internal control and cost transparency.

The SIB must ensure that the partner commissioned to carry out projects/project contributions (projects) unconditionally observes the legal provisions.

Pursuant to this law, the SIB defines the following principles governing the financial reporting of projects:

- Adequacy and effectiveness of the Internal Control System (ICS)
- Principles of orderliness (financial regularity)
- Conformity with the project objectives and adherence to the contract condition
- Economical conduct of business and effective use of financial resources

The legally prescribed audit mentioned here to determine the effectiveness and economy of the funds deployed (compliance with objectives, cost-effectiveness and economy) goes beyond the scope of an ordinary audit according to Swiss or international auditing standards.

3. **Contractual agreement governing performance**

The detailed contractual agreements between the contract partner and the SIB also govern the object of the audit and the aims of the audit. The auditor is obliged to acknowledge these provisions and structure his audit in accordance with them.

As a rule, the contractual agreements cover the following documents:

- Contracts between the SIB and the contract partner as well as between the contract partner and partner organisations
- Project documentation
- Budget/annual operation plan
- General conditions of business (GCB)
- Mandate and these TORs for the external audit of project accounts
- Mandate and TORs for the local financial audit.

II **Audit of the accounts**

1. **Object of the audit**

1.1. The contract partner's accounting practices

The contract partner shall manage accounts at its head office, which shall include local project book-keeping well as the accounts for all other activities.

If the contract partner's head office is in Switzerland, the books must be kept in accordance with Swiss Accounting and Reporting Recommendations (Swiss GAAP FER). For non-profit organisations (NPO) which are financed inter alia by donations, Swiss Accounting and Reporting Recommendation 21 "Accounting for benevolent social non-profit organisations" must be taken into consideration. If the contract partner's head office is outside Switzerland, the relevant national requirements or International Financial Reporting Standards IFRS must be applied.

The object of the audit is the accounts. These are drawn up at the contract partner's head office and cover financial transactions conducted for the project at the contract partner's head office, as well as all expenses and income arising from the performance of the project in the partner country.

The accounts must be audited annually or periodically by the auditor mandated with the consent of the SIB. The auditor shall verify in particular the existence and the quality of the ICS as well as the proper rendering of accounts, and confirm conformity with the project aims and the cost-effectiveness of the funds deployed.

1.2. Audit aims

The auditor must plan and perform the audit in order to provide a professional, unconditional statement of the contract partner's financial statements as well as of the other aspects as defined in Art. 1 2 above.

1.3. Independent auditor's statement

The auditor undertakes to draw up an independent statement on the contract partner's financial statements, presenting the financial situation, results of operations (and if necessary the cash flows) accurately and in full for the accounting year/accounting period, and in compliance with the contract partner's principles of accounting and/or the legal provisions of the partner country and the corresponding standards promulgated by the profession. Where deemed practical for an understanding of the accounts, the auditor shall supplement his report with comments on the financial statements.

1.4. Local accounting in the partner country

Since the overwhelming proportion of project expenses are naturally incurred in the partner country, these are recorded in local project accounts. Local project accounting is audited on site by the local auditors.

The auditor shall therefore base his audit on the audit work and report of the local auditor and, if possible, draw attention to this in his audit report (if necessary, mentioning the scope).

The auditor is obliged to obtain a comprehensive picture of the local accounting organisation, the existence and the quality of the ICS, the accounting and valuation principles applied and the adequacy of project organisation reporting in the partner country.

In order to achieve this, he shall make himself fully familiar with these aspects at the head office and inspect, assess and add to his dossier the relevant documentation such as manuals, written work processes as well as head office directives for project management.

Should the auditor find areas for improvement following his examination, he must advise the contract partner of these in a Management Letter.

2. Audit recommendations

As mentioned above, the auditor is expected to assess the following aspects and expressly state his position on them in his audit report:

- Principles of orderliness (financial regularity)
- Existence and adequacy and effectiveness of the Internal Control System (ICS)
- Conformity with the project objectives and adherence to the contract condition
- Economical conduct of business and effective use of financial resources

The principle of orderliness (financial regularity) and the existence of the ICS have to be positively confirmed by the auditor.

The aspects adequacy and effectiveness of ICS, the conformity with the project objectives and adherence to the contract conditions and the economical conduct of business and effective use of financial resources are to be expressed in a so called “negative confirmation” based on the executed audit actions.

We expect the following paragraph to be included in the audit report:

“Based on our audit, nothing has come to our attention that causes us to believe that

- the Internal Control System (ICS) is not adequately or effectively organized
- the project execution is not in conformity with the project objectives and does not adhere to the contract conditions
- the business is not economically conducted and the financial resources are not effectively used.”

On the basis of the information received during the planning phase, including his own risk assessment, the auditor shall determine the type and scope of audit actions (full or random). Accordingly, he must define and carry out suitable audit tasks in order to obtain an overview of the aforementioned aspects before he assesses the individual audit findings and reaches a final independent decision on the audit.

Examples of possible audit actions are:

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

- Adequacy of the internal organisation (structures, functions, tasks, authority, responsibilities, methods, procedures, segregation of duties, etc.).
- Effectiveness of project management and accounting processes.
- Adherence to applicable laws, regulations and instructions.
- Physical existence of assets and the related controls.
- Measures to safeguard against incorrect entries, manipulation of accounts, irregularity and fraud.
- Adequacy and completeness of financial information and the reporting system.

Principles of orderliness (financial regularity)

Project related matters

- Authorisation of expenses and their validation by means of appropriate, seamless documentation of receipts.
- Proof of funds received for project performance and reconciliation of the information with the donor's statements.
- Proof of the existence of goods as well as a means of tracking the financial allocation and physical movement of such goods.
- Use of expenses in conformity with the agreed budget(s).
- Conformity of contracts with the relevant laws.
- Disposition and implementation of observations, adjustments and recommendations resulting from previous financial review reports.

Accounting related matters:

- Compliance and material accuracy of the statements, receipts, project accounting and other reports.
- Correctness and completeness of the accounting entries.
- Timely recording of all business and financial transactions.
- Agreement of project accounts and other reports with the general ledger accounts.
- Adequacy and completeness of revenues, all revenues are booked correctly.
- Proof of receivables and obligations as well as corroboration for balances in reconciliation and transit accounts.
- Reconciliation of the effective cash balance and bank statements with the general ledger accounts
- Disposition and implementation of observations, adjustments and recommendations resulting from previous financial review reports.

Conformity with the project objectives and adherence to the contract condition

- Agreement of transactions, expenditures and receipts by comparison with the basic project documents (project description, programs of activities, contracts, TORs, budgets, etc.).
- Exclusive use of the funds allocated for goods and services for the project in line with the contractual provisions; goods must be physically available or have been demonstrably used/sold.
- Compliance with contractual provisions agreed on between the FDFA and the contract partners.
- Verification that expenses charged to the project correspond to the agreed budget. Discrepancies between effective project expenses and budgeted expenses must be adequately justified and documented by the contract partner.

Economical conduct of business and effective use of financial resources

- Financial resources must be used for project activities as defined by the contractual provisions, ensuring an appropriate level of cost and benefit.
- Existence and application of adequate measures in the internal control system (ICS) in respect of the utilization of committed resources.
- Use of an appropriate system of tasks, authorities and responsibilities (T/A/R), in particular the separation of conflicting or important functions and processes such as commitment to obligations, signing and recording of expenses, matching of cash and bank account balances, clarification of long-term unsettled receivables and obligations, physical existence of material goods, etc.
- Existence of an adequate purchasing system that guarantees an optimal cost-benefit ratio for the purchased materials and services and the appropriateness of the goods and services provided by contractors for local customers and cost structures.
- Verification that prices and rates are subject to regular reviews and that the accounting system in use is adequate to the requirements of a management tool, particularly as it concerns cost analysis.
- Critical inspection, substantiation and test for correctness of costs and expenses billed by consultants (rent, travel expenses, lump-sum expenses) and corroboration of their operational contribution to the project.
- Critical inspection (if necessary, with expert assistance) of all benefits paid to local staff (gross salary, social security contributions, income tax, etc.).
- Existence and use of a vehicle logbook and verification that private use of the vehicle is invoiced.
- Verification that private use of mobile and fix net phones by members of the staff has been invoiced and paid on time.

III Local audit of project accounts

The contract partner bears responsibility for the local audit.

In collaboration with the auditor, the contract partner ensures that the local auditors are aware of the conditions set down in these TORs and are familiar with the aims of the audit of accounts and their responsibilities (see also separate audit mandate for local auditors "TOR for local financial review").

In the case of recurring audits – on completion of the local audit - the contract partner, in collaboration with the contract partner's auditor, performs an assessment of the working methods, professional qualifications and quality of reporting for quality assurance purposes. This written assessment may be inspected by the SIB.

Contract partner: _____
Place, date: _____

Auditor: _____
Place, date: _____