



PROGRAMUL DE COOPERARE ELVEȚIANO-ROMÂN  
SWISS-ROMANIAN COOPERATION PROGRAMME

## Terms of References Financial Review / Audit

(adapted from *Terms of References Financial Review FDFA, 2010'*)

### 1. Fundamental principles

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- 1.1 The financial review of projects (“financial review”) is to be carried out by an independent auditor (“the auditor”), having the required professional competence and experience, and in accordance with audit standard ISA 805 (this standard will apply until further guidance will be issued by the Professional Body CAFR).
- 1.2 These Terms of Reference (“TOR”) define the mandate of the auditor in connection with the financial review of projects/programs of cooperation/implementing partner (“the partner”), financed by the Swiss Intermediate Body (SIB), mandated by the Swiss Agency for Development and Cooperation (SDC). The financial review is based on the professional requirements and guidelines governing the professional work to be undertaken by an auditor in relation to assurance engagements.
- 1.3 In planning, conducting and reporting on the financial review, the auditor shall be given due considerations to the following auditing and other standards promulgated by international professional bodies:
  - ISA - International Standards on Auditing,
  - IFAC – International Federation of Accountants

In addition, the relevant standards of the local audit profession as well as the local legislation on accounting and reporting in force in the country in which the financial review is carried out need to be taken into consideration by the auditor.

### 2. Overall principles of the financial review

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The auditor is required to plan, execute and report on the financial review engagement in order to form a professional judgment on the following matters relating to the activities and the organisation of the EA:

- 2.1 Principles of orderliness (financial regularity);**
- 2.2 Existence, adequacy and effectiveness of the Internal Control System (ICS);**
- 2.3 Conformity with the project objectives and adherence to the contract conditions;**
- 2.4 Economical conduct of business and effective use of financial resources.**

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<sup>1</sup> [http://www.sdc.admin.ch/en/Home/About\\_SDC/Invitations\\_to\\_tender/ressources/resource\\_en\\_200047.pdf](http://www.sdc.admin.ch/en/Home/About_SDC/Invitations_to_tender/ressources/resource_en_200047.pdf)

### 3. Documents of reference

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The following documents and matters are to be considered by the auditor as basic references for performing the financial review:

<b>Legislation:</b>	National legislation
<b>Project/program:</b>	Activity Agreement and its Annexes; Guidelines for Applicants Any other documents concerning the project.
<b>Accounting:</b>	Accounting documents subject to the financial review; Financial and operational reports concerning the project.
<b>Auditor:</b>	The present Terms of reference and the related contract; Prior internal and external audit reports of the EA; Any other information requested by the auditor.

### 4. Planning the financial review

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The auditor shall adequately plan the financial review engagement well in advance of the work and ensure the execution of the financial review of highest professional quality in an economical and efficient manner and within the agreed timetable.

On the basis of the information received during the planning phase, including his review risk assessment, the auditor shall determine:

- the type of transactions to be reviewed and the review method (full or random sample);
- the type of physical verifications and the sites to be selected;
- the number of site visits to be planned.

The auditor undertakes to ensure continuity in the review approach of the financial review engagement and the review team, even if there is a change in the leader of the review team from the prior year.

In case the auditor is changed, the new/current auditor should pay a professional care in order to assure himself/herself the work performed by the previous auditor. The new/current auditor must elaborate a clear opinion regarding the entire audited period (including the previous period audited by the other auditor).

### 5. Place of financial review

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The financial review is to be carried out only within the project environment (administrative offices and/or decentralised sites, if applicable).

## 6. Management representation of full disclosure

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The auditor shall obtain a management representation letter signed by the management of the reviewed 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 other pertinent information necessary for the review 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 reviewed period, for the project being examined;
- e) the availability of any information and explanations, either orally or by written confirmation, which might be required by the auditor in the execution of his mandate;
- f) in the case of contributions to local NGOs, the declaration has to certify the completeness of information concerning financing received or due and own financing concerning the reviewed period, for the project being reviewed **and** for the examination of the consolidated financial statements of the organization. The consolidated financial statements, including balance sheets and profit and loss statements of the project are to be annexed to the declaration and form an integral part thereof. This declaration shall be included in the financial review report.

In case of partnerships, a management representation letter will be submitted by all Romanian organizations involved.

## 7. Detailed financial review procedures

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Appropriate review procedures are to be applied by the auditor in order to form a professional judgement on the matters outlined below.

These procedures applied, either on a full scope or random basis, may include: controls, checking, evaluation, inspection, interview, analysis and other review techniques. When selecting the review procedures, the auditor shall give consideration to the results of his review risk assessment (during planning stage and during the course of the review work).

Accordingly, he must define and carry out suitable review tasks in order to obtain an overview of the aforementioned aspects before he assesses the individual findings and reaches a final independent opinion on the review.

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

Upon receipt of the financial review report, the SIB or any third persons designated by the SIB reserve the right to request other review procedures to cope with the change in circumstances in the project or of the organisation of the partner.

The auditor is expected to meet the requirements of ISA and to preserve any audit track in order to facilitate and independently review his/her audit files.

Examples of possible review procedures are:

### **7.1 Principles of orderliness (financial regularity) – Principle 2.1**

Project related matters:

- a) Authorizations/approvals of expenditures and validity with supporting documents,
- b) Details of funds received for the project and reconciliation with the information supplied by the donor(s),
- c) Physical existence and movements of the goods representing the property of the project (fixed assets, inventory items, current assets);
- d) Allocation of expenditures in conformity with the agreed budget(s),
- e) Conformity of local contracts with local legislation currently in force,
- f) Disposition and implementation of observations, adjustments and recommendations resulting from previous financial review reports.

Accounting related matters:

- g) Arithmetic exactitude of the accounts, supporting documents and financial statements and reports,
- h) Correctness of the accounting entries,
- i) Timeliness of recording economic events and transactions in the general ledger accounts,
- j) Financial statements and report information in agreement with the general ledger accounts,
- k) Adequacy and completeness of revenues, revenues are booked correctly
- l) Assessment of accounts receivable and advances; justification for overdue/unpaid amounts in excess of one month,
- m) Reconciliation of balances of cash in hand and in banks with the general ledger accounts,
- n) Disposition and implementation of observations and recommendations as well as adjustments and recommendations resulting from previous financial review and/or audit reports.

### **7.2 Existence, adequacy and effectiveness of the Internal Control System (ICS) - Principle 2.2**

- a) Adequacy of the internal organization (structures, functions, tasks, authority, responsibilities, methods, procedures, segregation of duties etc.),
- b) Effectiveness of project and financial accounting and reporting processes,
- c) Adherence to applicable laws, regulations and instructions,
- d) Physical safeguard of assets,
- e) Prevention of accounting errors and financial fraud,
- f) Adequacy and completeness of information and financial reporting system.

### **7.3 Conformity with the project objectives and adherence to the contract conditions – Principle 2.3**

- a) Agreement of transactions, expenditures and receipts by comparison with the basic project documents (project description, programs of activities, contracts, terms of reference, budgets etc.);
- b) Verification that goods purchased with allocated funds are utilized within the defined objectives and are still available or have been disposed/sold in conformity with the procedures defined in the project agreement/contract;
- c) Verification whether the clauses of the project agreement/contract have been respected;
- d) Verification that the expenditures correspond to the agreed budgets. Analysis of deviations between budgeted and actual expenses and substantiation of major budget variations.

### **7.4 Economical conduct of business and effective use of financial resources – Principle 2.4**

- a) Financial resources are utilized for the activities, as stipulated in the Activity Agreement and its Annexes, always ensuring an appropriate level of cost and benefits;
- b) Existence and application of adequate measures in the internal control system (ICS) in respect of the utilization of committed resources;
- c) Application of management procedures relative to the various project transactions. In particular, adequate segregation of duties for vital functions and processes, like entering commitments, authorizing and accounting of expenditures, reconciliation of cash on hand and in banks, follow-up on long outstanding debtors and creditors, physical control over inventories, etc.);
- d) Expenditures are in line with the agreed budget positions;
- e) Any deviations of actual expenses from the agreed budget are reasonably explained and adequately documented by the project management;
- f) Existence of adequate bid and purchasing procedures. e.g. best cost/benefit ratio for materials and services, conformity of price offers with local practices and cost levels;
- g) Confirmation that prices and rates are subject to regular verification and that the accounting system in use is adequate to the requirements of a management tool, particularly as it concerns cost analysis;
- h) Review and substantiation of expenditures of local and foreign experts/consultants (rent, travel expenses, accommodations, allowances etc.);
- i) Review and substantiation of expenditures related to national staff (gross salary, social and pension contributions, income taxes etc.);
- j) Existence of the vehicle logbook and verification that private use of vehicles has been invoiced and paid;
- k) Verification that private use of mobile and fix net phones by members of the staff has been invoiced and paid.

### **7.5. Findings and recommendations**

In his financial review report, the auditor is expected to

- explain and quantify any adjusting and/or reclassification entries, and to

- formulate recommendations for the improvement of the internal control system (ICS) as well as of project and accounting procedures.
- have adequate and proper documentation for all findings and recommendations that were made. An agenda with points to be considered in the future is expected to be adequate documentation.

## 8. Closing meeting

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After the completion of the financial review engagement, but before leaving the project or the premises of the EA, the auditor shall hold a closing meeting with the persons responsible for the project and the staff responsible for accounting and reporting. The meeting shall address the results of the project review, discuss major weaknesses in the project, administrative and financial management (including the deficiencies of individual staff members) and propose recommendations to improve the project management, the accounting procedures and the internal control system (ICS).

The content of the closing meeting is to be summarized in writing and signed both by the representative of the implementing partner and the leader of the review team. These minutes shall be annexed to the financial review report (see 9.1.13).

The minutes shall be done in Romanian and English (see also 9.2).

## 9. Financial review report

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The review report of the auditor shall explicitly be responsive to the overall principles applicable to the review engagement, as stated under 2. above.

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.

### 9.1 Content and structure of auditor’s financial review report

9.1.1 Auditor’s opinion (specifically addressing the four overall principles stated under 2. above)

9.1.2 Name of project, EA and partner/s

9.1.3 Brief description of relevant information on the partner (history, management, accounting system, internal control system, activities unrelated to the project funded by SDC etc.)

9.1.4 Period covered by the financial review

9.1.5 Date and place of review, name of audit firm, deviations from original review project

9.1.6 Description of review procedures applied and findings on financial information subject to the review

- Balance sheet
- Statement of income and expenses (statement of operations)

- List of proposed adjustments and reclassifications
- Other relevant matters

9.1.7 Analysis of the statement of funds received from the SIB

9.1.8 Analysis of the statement of funds received from other donors, if applicable

9.1.9 Recommendations on project management, accounting procedures and internal control system (ICS)

9.1.10 Comments with regard to adherence to Activity Agreement and its Annexes

9.1.11 Budget comparison of the project, including comments on major variations

9.1.12 List of inventories and fixed assets acquired by the project during the accounting period under review

9.1.13 Minutes of the closing meeting, as discussed under 8. above.

9.1.14 Management's general representation letter in relation to the financial review, as discussed under 6. above.

## **9.2. Currency and language of the financial review report**

The financial information contained in the financial review report of the auditor is to be expressed in the currency provided for in the contract. The financial review report of the auditor and all other documents resulting from the financial review engagement must be in English.

All audit files and audit working papers may be done in Romanian.