

**TERMS OF REFERENCE FOR A REGULAR FINANCIAL STATEMENT AUDIT**  
**AUDITS OF GRANTS AND PROJECTS FUNDED BY THE IADSA PROGRAMME**  
(for the period specified in Annex 1)

***Introduction***

1. The auditor shall audit the financial statements of the projects funded by the IADSA Programme, as listed in Annex 1 of these Terms of Reference, for the period specified in Annex 1.

***Objective***

2. The audit of the project financial statements aims to enable the auditor to express a professional opinion on the project's financial position at the close of the period specified in Annex 1 and on the income and expenses for the accounting period ending on the date specified in Annex 1. The project reports form the basis for preparing the financial statements and are designed to reflect the financial activities related to the project.

***Responsibility for Preparing Financial Statements***

3. The project management is responsible for preparing the financial statements, including maintaining adequate accounting records and an internal control system, selecting and applying accounting policies, safeguarding the project's assets, and providing adequate explanatory information. As part of the audit process, the auditor will request written confirmation from the project management regarding representations made in connection with the audit.

***Scope***

4. The audit shall be conducted in accordance with the [International Standards on Auditing](#) [or based on relevant national standards or practices]. These standards require the auditor to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used, significant estimates made by management, and evaluating the overall presentation of the financial statements.
5. In compliance with the International Standards on Auditing, the auditor is expected to pay particular attention to the following matters, including specific considerations for public sector entities:
  - (a) During the planning and performance of the audit, to reduce audit risk to an acceptably low level, the auditor must consider the risks of material misstatement in the financial statements due to fraud, as required by International Standard on Auditing 240.
  - (b) During the planning and performance of audit procedures and in evaluating and reporting the results, the auditor must recognize that non-compliance by the entity with legal and

regulatory acts may materially affect the financial statements, as required by International Standard on Auditing 250.

- (c) The auditor must communicate audit matters of governance interest arising from the audit of the financial statements to those responsible for the entity's internal governance, as required by International Standard on Auditing 260.
- (d) The auditor must appropriately communicate to those responsible for internal governance and management any deficiencies in internal control identified during the audit of the financial statements, as required by International Standard on Auditing 265.
- (e) To reduce audit risk to an acceptably low level, the auditor must determine the response to assessed risks at the financial statement level and design and perform further audit procedures to address those risks, as required by International Standard on Auditing 330.
- (f) When certain aspects of the entity's operations are performed by a third-party service provider, the auditor is expected to include information and an assessment of the service provider's internal control environment during the audit process, as required by International Standard on Auditing 402.
- (g) As part of the audit process, the auditor is expected to obtain written representations from management and, where applicable, those responsible for internal governance, as required by International Standard on Auditing 580.
- (h) When the external auditor decides to use the work of the entity's internal audit function to modify the nature, timing, or extent of audit procedures performed directly by the external auditor, this decision is made in accordance with International Standard on Auditing 610.
- (i) When deciding whether to use the work of an auditor's expert or whether such work is adequate for audit purposes, this decision is made in accordance with International Standard on Auditing 620.

6. In obtaining audit evidence regarding compliance with the approved measures for project financing, the auditor is expected to perform tests to confirm that:

- (a) All external funds have been used in accordance with the terms of the relevant financing agreements, with due attention to economy and efficiency, and solely for the purposes for which the financing was provided.
- (b) Counterpart funds have been made available and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and solely for the purposes for which the financing was provided.
- (c) All supporting documents, records, and accounts related to all project activities, including reported expenses using the statement of expenditure method or unaudited interim financial statements, have been maintained. The auditor is expected to verify that the relevant reports issued during the period are consistent with the underlying accounting records.

### ***Project Financial Statements***

- 7. The auditor shall verify whether the financial statements have been prepared in accordance with the [International Public Sector Accounting Standards](#). The financial statements must include:
  - (a) A summary of paid expenses, presented by project account headings and major expense categories; and

- (b) Additional explanatory information in the form of notes, including details of expenditure statements supporting withdrawal applications submitted during the period, a reconciliation of movements in the Designated Account, and a statement of fund balances.
- (c) Where the entity publicly discloses its approved budget, a comparison of planned versus actual amounts, either as a separate financial statement or as a budget column in the financial statements; and
- (d) Notes, including a summary of the most significant accounting policies and other explanatory notes.

### ***Review of Expenditure Statements and Unaudited Interim Financial Statements***

- 8. The auditor is required to audit all financial statements/periodic financial reports submitted to the IADSA Programme's Technical Support Unit in support of requests for replenishment of project-designated account(s). Expenses must be reviewed to verify their eligibility based on the criteria set out in the financing agreement and detailed in the project appraisal document. The auditor must report any ineligible expenses identified as included in withdrawal applications and reimbursed.

### ***Review of Designated Accounts***

- 9. During the audit of the project's financial statements, the auditor is required to review the activities of the project's designated account(s). The activities to be reviewed include deposits to the account, payments made from the account, interest earned, and the reconciliation of closing balances.

### ***Audit Reports***

#### ***Audit Opinion***

- 10. The auditor shall provide an audit opinion on the financial statements. The auditor's opinion is based on an evaluation of conclusions drawn from the audit evidence obtained and is clearly expressed through a written report that also describes the basis for the opinion. The audit report is prepared in accordance with International Standard on Auditing 700.
- 11. A modified audit opinion is issued on the financial statements when the auditor concludes, based on the audit evidence obtained, that the financial statements as a whole contain material misstatements, or when the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free of material misstatement. Modified audit opinions must comply with International Standard on Auditing 705.
- 12. The auditor shall include emphasis of matter paragraphs or other matter paragraphs in the audit opinion when the auditor, having formed an opinion on the financial statements, seeks to draw users' attention, when deemed necessary in the auditor's judgment, through clear additional communication in the auditor's report. These paragraphs may draw attention to a matter that, although appropriately presented or disclosed in the financial statements, is of such importance that it is fundamental to users' understanding of the financial statements; or, where applicable, to any other matter relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report. The form of the opinion shall be presented in accordance with International Standard on Auditing 706.

### ***Other Audit Reports***

13. In addition to the audit opinion, the auditor, either in the audit report or in a report to management:
  - (a) Provides comments and observations on the accounting records, systems, and controls examined during the audit;
  - (b) Identifies specific deficiencies and areas of weakness in systems and controls and provides recommendations for their improvement;
  - (c) Reports on instances of non-compliance with the terms of the financing agreement;
  - (d) Quantifies and reports expenses deemed ineligible, which have either been paid from the designated account or requested for reimbursement by the IADSA Programme's Technical Support Unit;
  - (e) Communicates matters that have come to attention during the audit and could have a significant impact on the project's implementation;
  - (f) Includes responses from management, including corrective actions taken or proposed.
14. If, during the audit, the auditor does not become aware of any matters deemed significant to bring to attention and, therefore, does not issue a management letter, the auditor shall issue a letter stating as such.

### ***General***

15. The auditor has unrestricted access to all information and explanations deemed necessary to facilitate the audit, including legal documents, project preparation and supervision reports, review and investigation reports, correspondence, and information related to the credit account. The auditor may also request written confirmation of disbursed and outstanding amounts as recorded in the beneficiary's records.
16. The auditor is encouraged to meet and discuss audit-related matters, including the information needed for the audit plan, with the team responsible for the project at the IADSA Programme.
17. If the auditors' appointment is for more than one year, a paragraph may be added to the "***General***" section at the end of the Terms of Reference as follows: "This engagement mandate remains in effect for subsequent fiscal years unless terminated, amended, or replaced."