**Annex 6B: Template Terms of Reference for the DGBP audit**

# Terms of Reference

Audit for the period xxxx of the Danida Green Business Partnerships grant from the Ministry of Foreign Affairs of Denmark to

AUDITED ENTITY

# Introduction

These Terms of References (ToR) cover the audit of the financial statements for the DGBP project NAME OF PROJECT. The audit includes both the financial audit as well as the compliance and performance audit of the project.

The audit will cover the financial statements for the period DD-MM-YYYY to DD-MM-YYYY presented as per the financial statements template applicable to DGBP projects.

# Background

The Danida Green Business Partnerships (DGBP) supports partnerships between commercial and non-commercial partners based on an innovative business case with an impact in developing countries and works in coherence with Danish strategic priorities in the partner countries. Each partnership contributes to green transition, inclusive growth, job creation and improved livelihoods. The programme is funded by the Ministry of Foreign Affairs of Denmark (DMFA) and administered by an external DGBP Secretariat, hereinafter the Secretariat. The administrative requirements are described in the DGBP Administrative Guidelines with the latest version being available at <https://danida-business-partnerships.dk/resources>.

Description of the consortia and its partners, background of the activities, objectives, and main activities.

Description of the audited entity and other recipients of the DGBP support.

# Objectives

The overall objective of the audit is to provide the DMFA with confidence in financial information provided to the DMFA by AUDITED ENTITY. By providing an opinion on the financial statements, and by reporting findings and observations, the audit company provides part of the basis on which the DMFA will assess the compliance of relevant legislative and regulatory requirements.

The objective of the financial audit is to obtain **reasonable assurance** whether the financial statements regarding funds granted through the DMFA are free from material misstatements. The objective of the compliance audit is to obtain reasonable assurance whether transactions covered by the financial statements comply with the appropriations granted, statutes, other regulations, agreements, and usual practice. Similarly, the objective of the performance audit is to make an assessment to obtain reasonable assurance whether the systems, processes, or transactions examined support the exercise of sound financial management in the administration of the funds granted through the DMFA.

The audit will also aim to provide AUDITED ENTITY with an external assessment of the financial capacity and established business processes. This includes providing observations and recommendations as part of the audit.

# Scope

The scope of the audit includes a financial audit as well as a compliance and performance audit.

The financial audit must be carried out in accordance with International Standards on Auditing (ISAs). Other frameworks of auditing than ISAs are accepted as a basis for the audit provided these frameworks result in an audit equivalent to an audit planned and performed according to the ISAs and International Standards of Supreme Audit Institutions (ISSAI). This will require the audit company to plan and perform procedures based on risk assessment and materiality. Therefore, the audit company must:

* Identify and assess risks of material misstatements of the financial statements, whether due to fraud or error. Based on the risks identified, the auditor must design and perform relevant audit procedures to obtain sufficient and appropriate audit evidence to serve as the basis for the auditor’s opinion.
* Obtain an understanding of the internal controls relevant to the audit, in order to design appropriate audit procedures. The purpose is not to express an opinion on the effectiveness of the internal controls, but whether these controls pertain to the project costs.
* Evaluate the appropriateness of the accounting policies used in the financial statements, including the reasonableness of estimates and related disclosures. In relation to funds granted through the DMFA, this is particularly relevant for accounting policies regarding project costs.

The specific audit procedures that may be relevant for the financial audit are specified further below in section 5.

The performance and compliance audit must be carried out in accordance with relevant ISSAIs. Therefore, the audit company must:

* Examine and evaluate the functioning of management systems and business processes with special consideration to compliance and the principle of economy.
* Gain an understanding of the audited entity and its environment to identify relevant regulation and legislation.
* Consider the necessity and relevance to perform test of details regarding compliance and the principle of economy, effectiveness, efficiency.
* Evaluate and conclude on audit findings and prepare communication.

The specific audit procedures that may be relevant for the performance and compliance audit are specified further below in section 5.

The audit must be planned in order to facilitate the timely submission of audited financial statements in accordance with the latest version of the DGBP Administrative Guidelines.

# Specific procedures

The audit company must plan the audit in accordance with their risk assessment. The extent and nature of planned procedures will therefore be subject to the professional judgement of the audit company. It is the audit company’s responsibility to plan the necessary procedures to obtain sufficient and appropriate audit evidence to form the opinion of the audit. However, the procedures listed below are considered a minimum to form an opinion for the audit.

## General procedures to be performed in regard to the audit process

The audit company must:

1. Submit detailed specified requirements for the audit XX days ahead of the audit to ensure the timely preparation of accounting material necessary for the audit.
2. Based on the knowledge obtained in the planning phase, determine the materiality level.
3. Perform interviews, observations, inspections of documents, and walk-throughs of processes to assess the internal control capacity, including:
4. Control environment
5. Design and implementation of key controls
6. Operational effectiveness of key controls, if tested
7. Perform walk-through of processes and routines as well as interviews to assess accounting and financial capacity, including:
8. Employed accounting system
9. Use of manual spreadsheets to record entries
10. Mapping the applied chart of accounts to the approved budgets
11. Underlying documentation to support recorded entries
12. Identify, evaluate and report on all material observations and findings using management letter. Please refer to the Deliverables sections of these ToR.

## Specific procedures to be performed in regard to financial audit

The audit company must:

1. Request bank confirmation letter mailed directly to the implementing partner required to open a separate bank account
2. Confirm and reconcile amounts received from the DMFA
3. Perform substantive testing on a sample basis of expenditure to verify proper allocation to the appropriate budget lines against the approved budget
4. Perform substantive testing on a sample basis to verify the existence of valid supporting documents relating to reported expenditure.
5. The sample size shall be based on the audit company’s professional judgement and should be stated in the methodology description related to the audit
6. All instances of any missing supporting documents must be reported, including the amounts in question
7. Perform substantive testing on a sample basis of the fixed asset list included in the financial statements as part of the reporting requirements to verify the existence and valuation of assets.
8. Perform procedures to verify the occurrence of transactions related to:
9. Any interest earned during the financial period
10. Any exchange gain/losses recorded in the accounts
11. Perform procedures to ensure that the financial information for the own contribution to the project by any consortium partner is submitted and recorded in accordance with the DGBP Administrative Guidelines. The own contribution is not subject to this audit.

## Specific procedures to be performed in regard to performance audit

The audit company must:

1. Test of controls related to performance audit
2. Perform interviews and walk-throughs to gain an understanding of the business processes.
3. Identify key controls related to performance. These controls may include:
4. Authorisation in connection with the procurement of goods and services
5. Budget reviews and follow up on costs
6. Managements review of finalised procurement processes
7. Monitoring reviews including evaluation of progress compared to activity description
8. Perform test of design and implementation of identified key controls
9. Substantive testing on a sample basis
	1. Determine relevant audit criteria for the audit in relation to economy, effectiveness or efficiency. The audit criteria can be qualitative, quantitative, focusing on what is expected, or best practice. These may include:
10. The quality in which the activity is delivered or completed compared to the description of the activity
11. The quantity of items completed or delivered compared to the description of the activity
12. Cost of procured goods or services compared to expected prices
13. Compliance with established procedures for procurement of goods and services, for instance the number of quotations received
14. The level of entertainment costs and travel costs compared to expected levels or levels with peers
15. Proper handling of assets, including liquid assets and fixed assets.
	1. Perform tests on selected audit criteria and evaluate on findings and conclusion.
16. To ensure economy in salary levels, perform test on a sample basis of established policies and procedures for compliance, specifically regarding allowances, advances, staff recruitment/salary scales, and other accounting routines.

## Specific procedures to be performed in regard to compliance audit

The audit company must:

1. Examine, assess, and report on compliance with the terms and conditions of the agreement with the DMFA.
2. Gain an understanding of the legislative and regulative environment in which the entity exist, including the compliance with applicable laws and regulation with a special attention to legislation regarding accounting and taxes.
3. Gain an understanding of the processes established to ensure compliance with applicable laws and regulations regarding employment of staff. This includes relevant labour legislation as well as regulation regarding social fees, pension, holiday, sick leave, and maternity leave.
4. Reconcile budget amounts included in the financial statements against the approved budget.
5. Test on a sample basis that activity funded by grants through the DMFA is not funded from other sources as well.

# Deliverables

## The independent auditor’s opinion

Conclusions of the financial audit must be presented in the independent auditor’s opinion. The independent auditor’s opinion should be prepared in English in accordance with applicable ISA and must refer to these ToR. The auditor’s opinion shall include the following elements:

* The auditor’s opinion on the financial statements and whether these are prepared in all material respect in accordance with financial provisions applicable
* Identification of the financial statements audited, including title of the activity and the financial period
* Reference to the applied accounting policies used in preparing the financial statements
* Reference to these terms of reference for the audit

Any qualifications should be clear and stated with correct headlines in accordance with relevant ISAs.

## The audit report

Conclusions on the compliance and performance audit must be presented in the audit report. The audit report should be prepared in accordance with applicable ISAs/ISSAIs and must refer to these ToR. The audit report shall include the following elements:

* Conclusions in relevance to specific audit questions or procedures
* Identification of the financial statements audited, including title of the activity and the financial period
* Description of scope of the audit (and possible limitations), including key procedures performed.

Depending on the chosen report method, the audit company can choose to include management letter content in the audit report or issue a separate management letter. If the former is chosen, the audit report shall contain the following elements as well:

* Findings and observations made from the audit with indication of severity or risk level
* Description of the effect or risk derived from the finding or observation
* Recommendations to address the findings or observations and management’s comments to findings and observations.

## Management letter

Findings or observations that are not material to financial statements as a whole, but considered to be of relevance to either management or the DMFA, must be reported in a management letter. Such findings or observations may include, but are not limited to:

* Deficiencies or weaknesses in internal control or business processes
* Lack of compliance with applicable laws or regulation
* Lack in financial capacity or financial systems
* Identified reconciliation items
* Budget overruns

The management letter must be prepared in English as part of the audit and submitted together with the audited financial statements.

The management letter shall, for each finding or observation, include:

* A description of the finding or observation with indication of severity or risk level
* Description of the effect or risk derived from the finding or observation
* Recommendations to address the finding or observation
* Management’s comments to the effect or risk as well as the recommendations.

## Audit methodology

* Summary of the audit approach and applied audit strategy, including the considerations made to the control environment
* Significant risks identified
* Description of tested controls
* Materiality level
* Issues related to fraud (if applicable)
* Sample sizes relative to population (% of tested expenditure (Expenditure Coverage Ratio))
* Distribution of samples on different sites, activities, offices, or other locations
* Conclusions from interim and other visits
* Identified bias or accounting estimates

## Closing meeting

As a conclusion of the on-site visit, the audit company must participate in a closing meeting with AUDITED ENTITY. The objective of the meeting is to discuss any relevant findings and observations with management to settle details or open items.

# Time table for the audit

|  |  |
| --- | --- |
| **Time**  | **Activity** |
|  |  |
|  |  |
|  |  |