

BINDING TERMS OF REFERENCE (TOR) FOR ENGAGING A PUBLIC AUDITOR/AUDITING FIRM – HERINAFTER CALLED “THE AUDITOR” FOR THE FINANCIAL AUDIT OF PROJECTS FINANCED BY PUBLIC FUNDS OF THE INTERNATIONAL CLIMATE INITIATIVE (IKI) OF THE GERMAN FEDERAL MINISTRY FOR ECONOMIC AFFAIRS AND CLIMATE ACTION (BMWK)

1. Background

Since 2008, the International Climate Initiative (IKI) of the Federal Ministry for Economic Affairs and Climate Action (BMWK) has been strengthening Germany’s bilateral cooperation by financing climate protection and biodiversity projects in developing, newly industrializing and transition countries and support for the ongoing negotiation process for a comprehensive global climate agreement. Being a key element of Germany’s climate financing, the IKI focuses on four areas: mitigating greenhouse gas emissions, adapting to the impacts of climate change, conserving natural carbon sinks with a focus on reducing emissions from deforestation and forest degradation (REDD+), as well as conserving biological diversity.

The IKI Office at Zukunft - Umwelt – Gesellschaft (ZUG) gGmbH, based in Stresemannstraße 69-71, 10963 Berlin, Germany, supports BMWK in implementing the IKI. The ZUG administratively runs the IKI Office on behalf of the BMWK, offering technical, administrative and legal support.

IKI funds for the implementation of climate protection projects (the Project) are granted to the Beneficiary under the terms of the Funding Contract. ‘The Beneficiary’ refers to the legal entity receiving the IKI funds and that has signed the Funding Contract with the BMWK.

The implementation of projects is subject to the Funding Contract comprising the administrative regulations in section 23, 44 of the Federal Public Code (BHO) and sections 49-49a of the Administrative Proceeding Act (VwVfG).

Since the inception of the IKI in 2008, a number of IKI-projects have ended. A newly introduced policy of the BMWK requires that all ended projects are comprehensively audited by independent and professional external auditors to ascertain that project funds were utilized as intended, in line with the Funding Contract and BMWK standards.

Therefore, the Beneficiary must submit a final financial report certified by an auditor within six months after the completion of the project.

Where in these TOR the BMWK is mentioned this refers to its quality as donor and signatory of the Funding Contract with the Beneficiary.

2. Objectives of the Audit

The overall objective of the audit is to provide independent and objective assurance that the IKI-project funds were used for the purposes intended and in accordance with the project objectives and the Funding Contract.

The specific objective of the audit is to audit the assigned Beneficiary's Project documents and express an opinion as to whether all project funds were legitimately spent on approved project activities and in accordance with the terms of the Funding Contract including reasonableness of expenses.

3. Scope of work

The audits shall be carried out in accordance with International Standards on Auditing and will include such tests and procedures, the Auditor considers necessary to provide an independent, objective and professional audit opinion under the given circumstances. Furthermore, relevant standards of the local accounting profession as well as local legislation on accounting and reporting of both, the country in which the financial review is

carried out and in which the project had been implemented need to be taken into consideration by the Auditor.

On a sample basis, the audit should cover the entire Project and the complete project period, particularly with regard to BMWK funds. The sample selection would be based on an assessment of the risks applicable to the IKI project.

The Auditor must plan the audit to obtain reasonable assurance that the final financial report is free of material misstatement due to errors or fraud.

Without limiting the audit procedures, special emphasis shall be paid to the following areas among others;

- The budget in the final financial report corresponds with the budget of the Funding Contract (authenticity and authorization of the budget) and that expenditures incurred were foreseen in the budget or authorized budget modifications;
- All BMWK funds have been used in accordance with the terms and conditions of the relevant Funding Contract, with due attention to economic efficiency and thrift, and only for the purposes for which the financing was provided;
- Goods and services financed have been procured in accordance with the Funding Contract and all expenditures have been properly accounted for (supported by genuine accounting records and third party documents such as vouchers, receipts, invoices, and attendance lists etc.). Appropriate supporting documents, records and books of account relating to all project activities have been kept. Clear linkages should exist between books of account and the final financial report presented to the BMWK;
- Examine whether fund transfers and payments are supported by appropriate documents, in particular by examining the complete documentation of transactions from Euros into local or any other currency, if any;
- The project accounts have been prepared in accordance with consistently applied International Accounting Standards and give a true and fair view of the financial status of the Project and of resources and expenditures for the project period;

- Examine whether third-party contributions or own funds 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 expenditures;
- 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; only contributions made in monetary terms should be shown.
- Examine employment agreements, time tracking, staff payrolls, vouchers and (if any) attendance lists for events such as workshops or congresses;
- Examine whether the final financial report shows only expenses eligible for the grant; expenses not eligible are e.g. VAT, if the recipient can claim a refund, and implied costs (except for direct contributions, interest on credit balances); in case of doubt the Auditor consults the IKI Office at ZUG about the extent of expenses qualifying for the grant. Project expenditures, to be eligible, must be essential to the Project's implementation and would not have occurred if the project had not been carried out (value added);
- Examine whether the Beneficiary mediates parts of its funding to implementing partners in accordance with the Funding Contract and with knowledge and consent of the BMWK;
- Examine whether the Beneficiary has agreements in place with the organizations (implementing partners) to which it mediates parts of its funding and if so, state whether or not this agreement fulfills the minimum requirements issued by BMWK in the Funding Contract with the Beneficiary in question. *(Note that this paragraph is applicable only if the Beneficiary transfers a portion of its BMWK funding to another organization.);*
- Verify comprehensive assessment of the adequacy and effectiveness of the accounting and overall internal control systems to monitor expenditures and other financial transactions and ensure safe custody of project financed assets and that they are being used for the intended purposes;

- The Auditor should ascertain that fixed assets exist, are properly evaluated and that property rights and potentially related Beneficiary's rights are established in accordance with the Funding Contract;
- Ineligible expenditures identified during the audit will be identified and reported on and should be taken into account in the Auditor's opinion.

4. Auditor independence

The Auditor must be completely impartial and independent from all aspects of management or financial interest or any other interest that may potentially affect or be seen to affect the auditor's opinion prior and during the execution of the audit assignment.

5. Auditor's qualification

The Auditor should be a member of the International Federation of Accountants (IFAC). Whether an IFAC member or not, the Auditor commits himself to undertake this engagement in accordance with applicable International Standards of Auditing (ISA) and ethics. National Auditing Standards that comply with ISAs in all material respects will also be accepted. The team of proposed auditors should equally be qualified and experienced in the audit of donorfunded projects (CVs should be part of the proposal).

6. Auditors Report

The audit report shall contain assurance that the audit has been performed in accordance with International Standards and by a qualified auditor. The audit report shall contain the responsible Auditor's signature (not just the audit firm) and title and shall be written in English or German. Two copies are to be submitted to the Beneficiary. The Auditor must stamp the final financial report of the project, certified by the Beneficiary and attach it to the audit report. Furthermore, a complete voucher list of all expenditures for the Project has to be attached to the audit report, indicating all vouchers that were audited and found eligible under the grant by highlighting them in the voucher list. Moreover, a copy of all rejected receipts/vouchers has to be attached. All objections should be separately documented in the audit report.

The Auditor shall report to the Beneficiary and, if considered necessary, liaise with implementing partners (if any) and the IKI-Office at ZUG for the purposes of accomplishing the audit.

The audit report should clearly indicate the Auditor's opinion. This would include at least the following:

- an introductory paragraph containing identification of the financial information audited including the period covered and the location of the audit; statement of the responsibility of the Beneficiary's management and the responsibility of the auditor;
 - the accounting standards that have been applied and indicate the effect of any deviations from those standards if any;
 - the international audit standards that were applied;
 - the work the Auditor performed including a description of the sample selection method applied;
 - the confirmation whether the financial transactions reflected in the final financial report are in accordance with International Financial Reporting Standards;
 - verification that the Beneficiary's administrative fees do not exceed the maximum allowable under the terms of the Funding Contract;
- All ineligible expenditures will be disclosed and explained in an annex to the audit report, including a copy of the rejected receipts.
- Give comments and observations on the accounting records, procedures, systems and controls that were examined during the course of the audit;
 - Report on the degree of compliance with the Funding Contract and give comments, if any, on internal and external matters affecting such compliance;
 - Communicate matters that have come to their attention during the audit which might have a significant impact on the implementation and sustainability of the Project;
 - Include reactions/comments from the Beneficiary on the weaknesses noted by the Auditor;

- Bring to the attention of the Beneficiary any other matters that the Auditor consider pertinent;
- Before finalizing the audit report the Auditor must discuss their findings with the Beneficiary. The Auditor will present or incorporate these responses in the audit report.

7. General

The audit shall be carried out in the Beneficiary's country office where the project's accounting documents are kept.

The Auditor should be given access to all legal documents, correspondence, and any other information associated with the Project and deemed necessary by the Auditor.

The Auditor should become familiar with the Project, and with the relevant policies and guidelines of the BMWK (including those relating to disbursements, procurement and financial management and reporting). This information can be inquired from the Beneficiary, can be found on the IKI website or, if necessary can be provided by the administration staff of the IKI Office at ZUG.

BMWK or the IKI Office at ZUG reserves the right to require additional explanations to the audit report. Furthermore, BMWK reserves the right to review the amount of the Auditor's files and the repudiation of expenditures claimed as eligible under the grant by the Auditor.