

Технічні вимоги до предмету закупівлі

Terms of reference

Introduction

These Terms of reference cover the audit of the financial statements for the project «Institutional support for Transparency International Ukraine strategy implementation». The audit shall comprise of a financial audit including elements of compliance audit.

The audit shall be carried out in accordance with international audit standards (ISA) issued by IAASB . In addition, an assignment according to International Standards on Related Services (ISRS) 4400 (Revised) shall be carried out. The audit and the additional assignment shall be carried out by an external, independent and qualified auditor.

The audit will cover financial statements for the period 01/09/2022 – 31/03/2024.

Objective

Based on the financial information and other information provided by Transparency International Ukraine, the Danish Ministry of Foreign Affairs (MFA) will determine whether all legislative and regulatory requirements linked to the funds granted have been complied with.

The overall objective of the audit is to provide the MFA with confidence in financial information provided to the MFA by Transparency International Ukraine. 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 MFA will assess the compliance of relevant legislative and regulatory requirements.

The objective of the financial audit is to obtain reasonable assurance whether the funds granted through the MFA are free from material misstatement. Based on the audit evidence obtained, the objective is thereby to express an opinion on whether the financial statements are free from material misstatement.

The overall 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 MFA.

The audit will also aim to provide Transparency International Ukraine 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 including elements of compliance 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 ISSAIs. 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 misstatement 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. In relation to funds granted through the MFA, these controls pertain in particular to costs, including costs related to activities funded by the MFA, recognised in the financial statements.
- 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 MFA, 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.

The performance and compliance audit must be carried out in accordance with relevant International Standards of Supreme Audit Institutions (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.

The audit must be planned in order to facilitate the timely submission of audited financial statements in accordance with Contract. This means that the audit is expected to take place in the period 22/04/2024 – 30/04/2024.

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 to be a minimum in order to form an opinion for the audit.

As a result, the audit company is expected to perform the listed procedures as well as plan and perform further procedures, if this is deemed necessary according to professional judgement.

General procedures to be performed in regard to the audit process

The audit company must:

1. On a timely basis, submit a complete schedule for the audit process, including dates for interim audit, year-end audit, on-site visits, field visit and reporting.

2. Submit detailed specified requirements for the audit ahead of the audit to ensure the timely preparation of accounting material necessary for the audit.
3. Based on the knowledge obtained in the planning phase, determine a materiality level in accordance with ISA 320.
4. Perform interviews, observations, inspections of documents, and walk-throughs of processes to assess the internal control capacity, including:
 - a. Control environment.
 - b. Design and implementation of key controls.
 - c. Operational effectiveness of key controls, if tested.
5. Perform walk-through of processes and routines as well as interviews to assess accounting and financial capacity, including:
 - a. Employed accounting system.
 - b. Use of manual spreadsheets to record entries.
 - c. Mapping the applied chart of accounts to the approved budgets.
 - d. Underlying documentation to support recorded entries.
6. Identify, evaluate and report on all material observations and findings using management letter. Please refer to the Deliverables sections of these Terms of Reference.

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 MFA.
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 third party supporting documents relating to reported expenditure.
 - a. 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.
 - b. All instances of any missing supporting documents must be reported, including the amounts in question.
5. 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.
6. Perform procedures to verify the occurrence of transactions related to:
 - a. Any interest earned during the financial period.
 - b. Any exchange gain/losses recorded in the accounts.
7. 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 Partnership agreement or equivalent with the MFA and other donors, if relevant.

2. Gain an understanding of the legislative and regulative environment in which the entity exist.
 - a. Assess compliance with applicable laws and regulation with 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 MFA 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 ISA 800 and must refer to these terms of reference for the audit. 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.
- Sections and paragraphs in accordance with ISA 800.

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 ISSAIs and must refer to these terms of reference for the audit. 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 MFA, 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.
- Other relevant comments or/and recommendations.

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 (this includes 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.
- Identified bias or accounting estimates.