

United Nations Development Group (UNDG)

Proposed Revisions to the
Harmonized Approach to
Cash Transfers (HACT) Framework –
Audit & Assurance

APPENDICES

17 September 2013

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Contents

Appendix 1 – Listing of Stakeholders Consulted	2
Appendix 2 – Analysis of Assurance Models of Other Development Agencies	4
Appendix 3 – Example Assurance Model per Risk Rating	6
Appendix 4 – Example Micro Assessment Plan	12
Appendix 5 – Micro Assessment Questionnaire	17
Appendix 6 – Agency Assurance Plan Template	44
Appendix 7 – Assurance Monitoring Dashboard	48
Appendix 8 – Terms of Reference for Spot Checks Performed by Internal Agency Staff	50
Appendix 9 – Terms of Reference for Spot Checks performed by External Service Provider	56
Appendix 10 – Terms of Reference for Management Letter	66
Appendix 11 – Comparison of Current Agency and HACT Audit Models	84
Appendix 12 – Terms of Reference for Agreed upon Procedures regarding Implementing Partner’s Internal Controls (Internal Control Audit)	87
Appendix 13 – Terms of Reference for Financial Audit	97

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Appendix 1 – Listing of Stakeholders Consulted

KPMG held interviews and presented to the following stakeholders during our consultancy:

- United Nations Development Operations Coordination Office (UN DOCO)
- *United Nations Development Group (UNDG), Regional Coordination Advisor – Eastern & Southern Africa*
- *United Nations Development Programme (UNDP) (Headquarters and Armenia, Malawi and Vietnam country offices)*
- *United Nations Educational, Scientific and Cultural Organization (UNESCO)*
- *United Nations Population Fund (UNFPA) (Headquarters and Vietnam and Malawi country offices)*
- *United Nations High Commissioner for Refugees (UNHCR)*
- *United Nations Children’s Fund (UNICEF) (Headquarter and Vietnam and Malawi county offices)*
- *United Nations Industrial Development Organization (UNIDO)*
- *Resident Coordinator Office, Vietnam*
- *United Nations Board of Auditors*
- *UNDP Audit Advisory Committee*

Appendix 2 – Analysis of Assurance Models of Other Development Agencies

Appendix 2 – Analysis of Assurance Models of Other Development Agencies (continued)

Elements of Assurance Model	World, Asia, and Inter-American Development Banks	The Global Fund to fight AIDS, Tuberculosis and Malaria	Department for International Development (DFID), now UKAID	USAID
Point of Accountability**	Implementing Partner	Implementing Partner	Implementing Partner	Implementing Partner
Audit	Loan/Grant Agreements with Implementing Partners usually require audits to be undertaken annually as a condition of future tranche payments The Banks have oversight/"no-objection" of Terms of Reference utilized, audit firm selection, and audit results	Grant Agreements require revenue and expenditure of Implementing Partner and sub-recipient (if any) to be audited annually by an external firm, using TOR approved by the Global Fund in line with generally accepted auditing and accounting standards	Contract with Implementing Partner requires annual audit, using UKAID's agreed Terms of Reference. UKAID also performs 'in flight' spot checks/due diligence on the Implementing Partner	USAID agreements with foreign recipients require them to contract independent auditors acceptable to the USAID Office of Inspector General (OIG) to perform financial audits of the funds provided under the agreements

**In relation to project audits

Appendix 3 – Example Assurance Model per Risk Rating

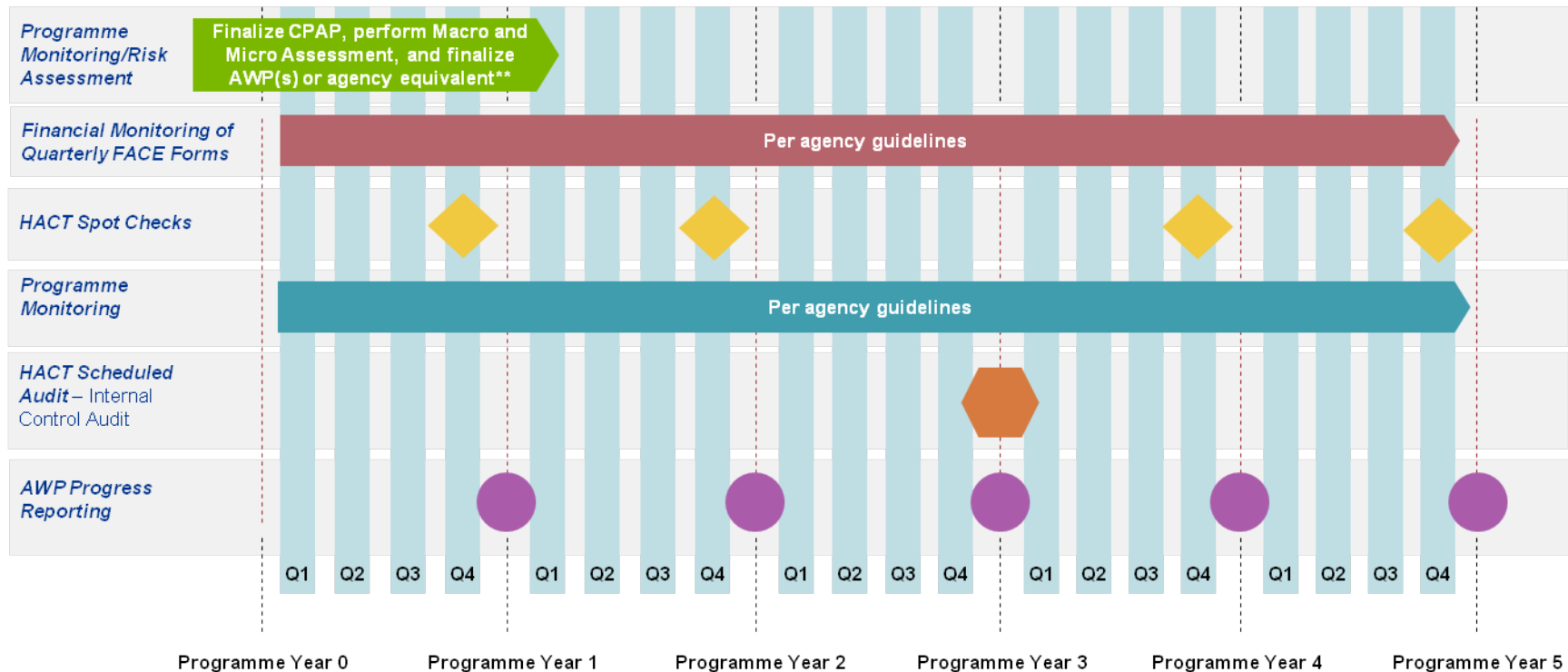
Example Assurance Model per risk rating:

The following provides suggested guidance for the combination and timing of assurance activities according to risk rating of the implementing partner. This guidance is based on a five year programme cycle:

Risk Rating	Spot checks*	Programme Monitoring	Audit Frequency	Audit Type
Low	1 per year, excluding year of audit	Per agency guidelines	Third <u>or</u> fourth year of the programme cycle	Internal Controls Audit May switch to financial audit if significant issues or concerns identified in spot checks
Moderate	1 -2 per year, excluding year of audit		Second and fourth year of the programme cycle	
Significant	None		Annual	Financial Audit If receive two sequential audits with unmodified opinion, perform an internal controls audit for remaining period
High	None		Annual	

The above guidance has been provided graphically in diagrams on the following pages.

Appendix 3 Example 1: Suggested Assurance Activities for Low risk rating



Legend:

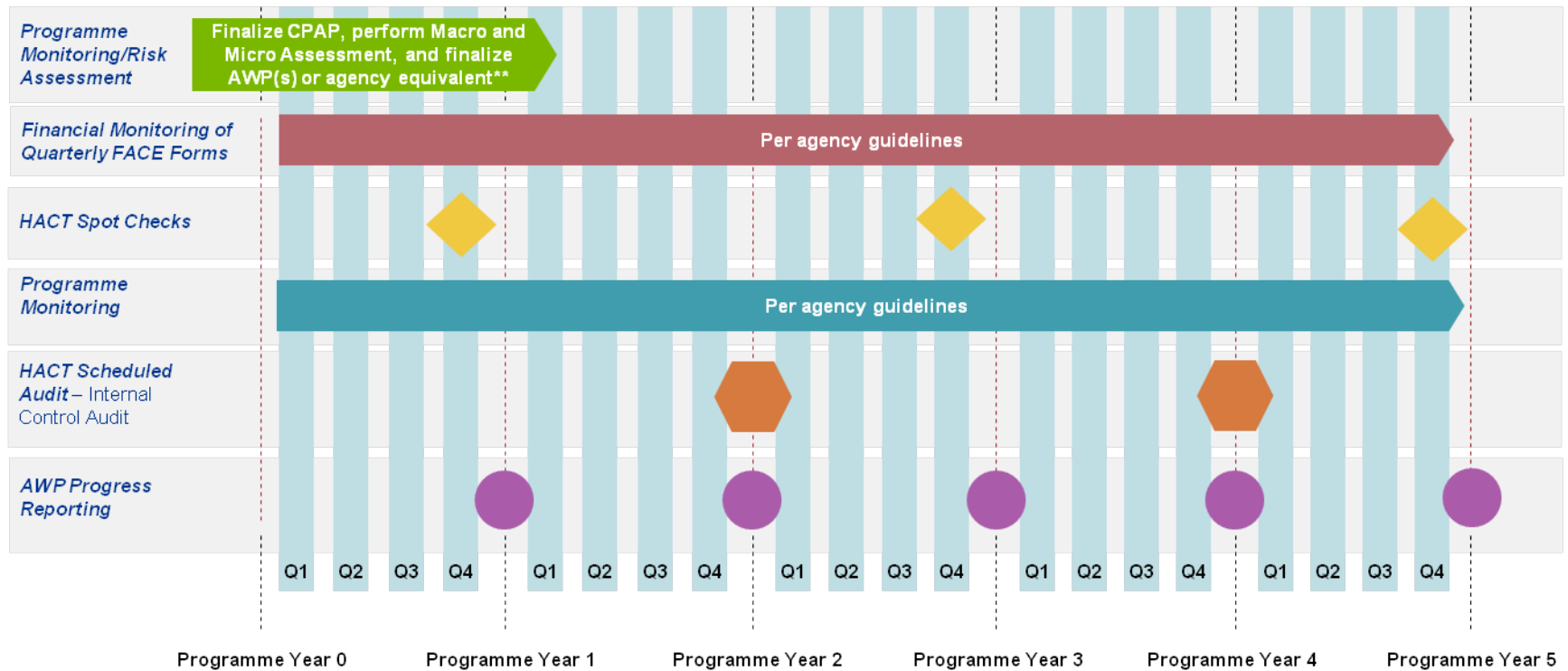
= Quarterly submission of face form

** = Assume high risk until activities are completed, then adjust risk rating and cash transfer modality accordingly

Spot checks are not necessary in year of audit for Low risk IPs, unless specific circumstances exist that the agency deem necessary to perform.

Additionally, it is recommended that spot checks be performed over Q4 expenditures (spot check performed in the first quarter of the following programme year once the Q4 FACE form has been submitted) as our understanding is that is when the majority of programme year expenditures are expended by the IP. Other quarters may be selected for spot check as long as an appropriate minimum amount of programme year expenditures is included (i.e. at least 20% of programme year total expenditures).

Appendix 3 Example 2: Suggested Assurance Activities for Moderate risk rating



Legend:

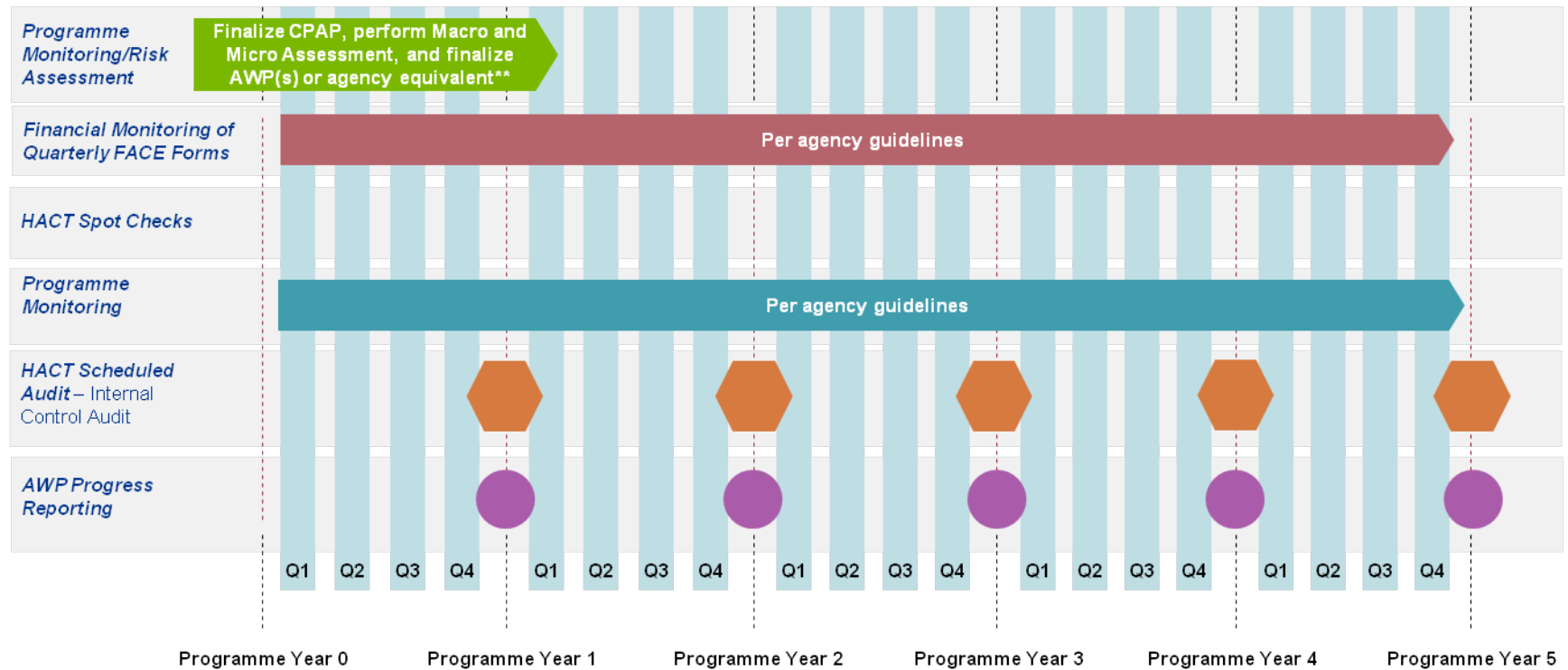
 = Quarterly submission of face form

** = Assume high risk until activities are completed, then adjust risk rating and cash transfer modality accordingly

Spot checks are not necessary in year of audit for Moderate risk IPs, unless specific circumstances exist that the agency deem necessary to perform.

Additionally, it is recommended that spot checks be performed over Q4 expenditures (spot check performed in the first quarter of the following programme year once the Q4 FACE form has been submitted) as our understanding is that is when the majority of programme year expenditures are expended by the IP. Other quarters may be selected for spot check as long as an appropriate minimum amount of programme year expenditures is included (i.e. at least 20% of programme year total expenditures).

Appendix 3 Example 3: Suggested Assurance Activities for Significant risk rating

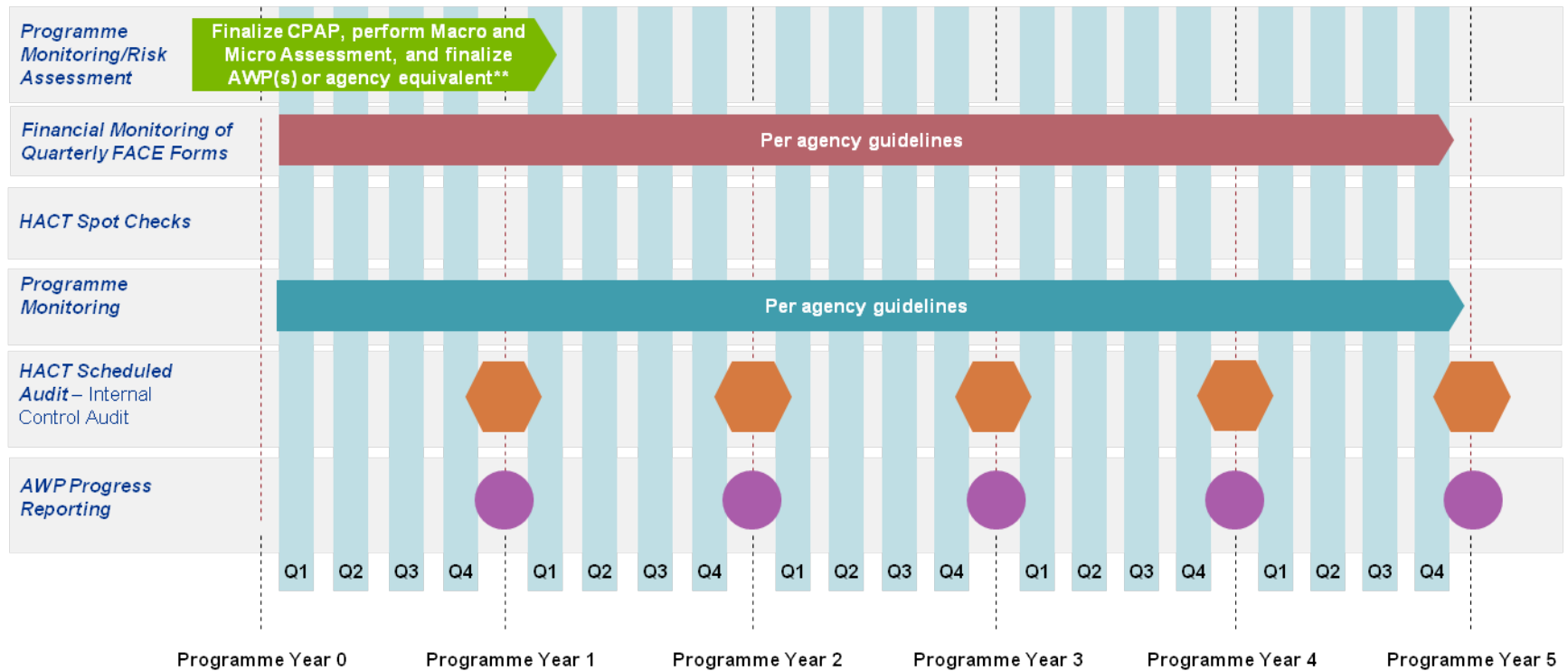


Legend:

= Quarterly submission of face form

** = Assume high risk until activities are completed, then adjust risk rating and cash transfer modality accordingly

Appendix 3 Example 4: Suggested Assurance Activities for High risk rating



Legend:

= Quarterly submission of face form

** = Assume high risk until activities are completed, then adjust risk rating and cash transfer modality accordingly

Appendix 4 – Example Micro Assessment Plan

Micro Assessment Plan Template:

The “Micro Assessment Plan” template on the following page was created to assist country office teams with planning and scheduling micro assessments of IPs. It is based on the following assumptions:

- Programme cycle began 01 January 2013;
- No prior HACT implementation*; and
- Is the plan for Agency UN1 and includes the complete listing of UN1’s IPs

**We understand that many partners have already implemented a certain level of the original HACT framework, however this provides a basis for the process that can be used by agencies that have not yet adopted or implemented HACT. Agencies that have already had experience with the original HACT framework can build upon this example with prior relevant information.*

The detailed steps for completing the ‘Micro Assessment Plan’ has been illustrated in the example below and further described below:

Appendix 4 – Example Micro Assessment Plan (continued)

IP Name	Agency	1 Budgeted Programme Cycle funding	2 Summary Scope of Work	Years Working with IP	Previous Micro Assessment	Other reviews (e.g. NEX/NIM audit, HACT audit, etc)	3 Agency Capacity Assessment	4 Micro Assessment deemed necessary	5 Priority Rating	Planned Micro Assessment Date
C	UN1	\$500,000	Promoting prenatal care in a mother's pregnancy	2	N	Expenditure audit (NEX/NIM) in 2012 – Qualified opinion with various high and moderate risk findings	Yes – performed in 2011 and noted significant findings regarding procurement process	Yes	1	February 14, 2013
D	UN1, UN3	\$700,000	Promoting gender equality	3	N	Expenditure audit (NEX/NIM) in 2012 – Unqualified opinion with no significant findings	Yes – performed prior to initially working with this IP	Yes	2	April 14, 2013
A	UN1, UN2	\$250,000	Early childhood programmes and school readiness	7	N	Expenditure audit (NEX/NIM) in 2012 – Unqualified opinion with no significant findings	Yes – performed prior to initially working with this IP	No	N/A	N/A
B	UN1	\$100,000	Reducing the vulnerability of women and girls to HIV	1	N	Expenditure audit (NEX/NIM) in 2012 – Unqualified opinion with no	No	No	N/A	N/A

Appendix 4 – Example Micro Assessment Plan (continued)

IP Name	Agency	1 Budgeted Programme Cycle funding	2 Summary Scope of Work	Years Working with IP	Previous Micro Assessment	Other reviews (e.g. NEX/NIM audit, HACT audit, etc)	3 Agency Capacity Assessment	4 Micro Assessment deemed necessary	5 Priority Rating	Planned Micro Assessment Date
						significant findings				
E	UN1	\$50,000	Support to police remuneration, police infrastructure, police capacity development	2	N	Expenditure audit (NEX/NIM) in 2012 – Unqualified opinion with no significant findings	Yes – performed prior to initially working with this IP	No	N/A	N/A
Agency Total Budgeted Programme Cycle Funding		\$1,600,000								

Completing a ‘Micro Assessment Plan’ template- use the following process to determine which IPs require a micro assessment:

1	Step 1: Populate the Micro Assessment Plan with the complete listing of agency IPs in the country and sort the data in descending order based on ‘Budgeted programme cycle funding’ (per agency)
2	Step 2: Identify the top IPs based on ‘Budgeted programme cycle funding’ that make up at least 60%¹ of total budgeted programme cycle funding <i>Consideration should exclude budgeted programme funding related to agency salaries and benefits, which are the responsibility of the agency.</i> Example: Agency UN1 has 5 implementing partners with the following budgeted programme cycle funding this programme cycle: A. US \$250,000 B. 100,000 C. 500,000 D. 700,000 E. 50,000 US \$1,600,000 Total budgeted programme cycle funding IP C and D amount to US \$1,200,000, or 75%, of the total budgeted programme cycle funding.
3	Step 3: Consider other elements included in the ‘Micro Assessment Plan’ for all IPs to identify other IPs that may require an assessment be performed (e.g. negative past assessments, negative audit opinions / findings, lack of previous audit, etc.) in addition to those identified in Step 2 based on agency discretion
4	Step 4: Based on the results of Step 2 & 3 above, determine which IPs require a micro assessment to provide coverage of at least 60%² of ‘Budgeted programme cycle funding’. <i>Judgment should be utilized in this determination, considering both materiality of funds provided to the IP (Step 2) and severity of other available information (Step 3).</i>
5	Step 5: Based on Step 3 – 4 above, assign each IP selected for micro assessment with a priority rating

- i. Share the agency ‘Micro Assessment Plan’ with the other agencies Inter-agency HACT Coordinator (if shared database has been created this information should be entered)
- ii. Develop a planned date for each IP micro assessment considering the priority rating, coordination with other agencies for shared IPs, procurement process (e.g. is an LTA in place or does a firm need to be procured for each assessment).
- iii. For the remaining IPs not selected for micro assessment, agencies should perform limited agency specific capacity assessments to assess the overall risk and appropriate cash transfer modality for that IP.

¹ Agencies to determine appropriate level of coverage appropriate to satisfy agency requirements.

² Agencies to determine appropriate level of coverage appropriate to satisfy agency requirements.

Appendix 5 – Micro Assessment Questionnaire

Micro Assessment Questionnaire

Implementing Partner: _____

Date: _____

Instructions: This checklist contains various questions related to eight subject matters, which have been summarized below. Please answer each question by indicating your response as “Yes”, “No” or “N/A”. Also, use the “Comments” section next to each question to highlight any matters deemed necessary.

Assign a risk rating (‘High’, ‘Significant’, ‘Moderate’, or ‘Low’) for each question based on the response obtained (i.e. if the question relates to an item that should ideally be marked “Yes” was marked “No”, this should be assessed for the level of risk it presents to the Implementing Partners (IP) financial management system). The assignment of risk ratings to the questions included in this document requires judgment on the assessor as to how the response for each question will impact the IP’s financial management system. The risk ratings available for this questionnaire have been detailed below:

High – response to question/subject matter provides a risk to the overall financial management system that has both a high likelihood and potential negative impact to the IP’s ability to execute the project/programme in accordance with the Annual Work Plan (AWP) and stated objectives. Additionally, this risk has not been mitigated by any other controls/process that have been implemented by the IP;

Significant – response to question/subject matter provides a risk to the overall financial management system that has either a significant likelihood or potential negative impact to the IP’s ability to execute the project/programme in accordance with the AWP and stated objectives;

Medium – response to question/subject matter provides a risk to the overall financial management system that has a moderate likelihood and potential negative impact to the IP’s ability to execute the project/programme in accordance with the AWP and stated objectives; or

Low – response to question/subject matter provides a risk to the overall financial management system that has a low likelihood and potential negative impact to the IP’s ability to execute the project/programme in accordance with the AWP and stated objectives.

To determine the overall risk assessment for a subject matter section (e.g. 1. Implementing Partner), the risk assessment from each question should be accumulated and averaged based on the number of questions in the subject matter section. Questions indicated as “N/A” should not be provided with a risk rating and should be removed from the total number of questions for the calculation noted above. The following points should be assigned to the risk assessment of each question:

H – High Risk	4 points
S – Significant Risk	3 points
M – Moderate Risk	2 points
L – Low Risk	1 point

The average number of points calculated should then be compared to the points rating above and assigned a corresponding risk (i.e. an average of 2.0 would indicate a “Moderate” risk rating for the subject matter section). Numbers should be rounded as follows: 0.1-0.49 round down to the closest whole number (i.e. an average of 3.3 would be rounded down to 3.0 and indicate a “Significant” risk rating) and 0.5-0.99 round up to the closest whole number (i.e. an average of 1.99 would be rounded up to a 2.0 and indicate a “Moderate” risk rating).

The same process as detailed above should be followed for determining the overall risk assessment for the implementing partner once checklist has been completed.

Summary of Risks related to the Financial Management Capacity of Implementing Partner				
Tested Subject Area (see subsequent pages for details of each subject area that has been summarized below)				
	Total Number of Risk Points	Total Number of Applicable Questions	Overall Risk Assessment	Comments
1. Implementing Partner				
2. Funds Flow				
3. Staffing				
4. Accounting Policies and Procedures				
5. Internal Audit				
6. External Audit				
7. Reporting and Monitoring				
8. Information Systems				
9. Procurement				
Total				Divide “Total Number of Risk Points” by “Total number of applicable questions in subject matter section” This amount should be rounded and as detailed on page 1 of this checklist and assigned an overall risk rating.

Micro Assessment Questionnaire

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
1. Implementing Partner						
1.1 Is the implementing partner legally registered? Please note the legal status/registration of the entity.						
1.2 Has the implementing partner received UN resources in the past? If so, provide details of amount, from which agency and for what purpose.						
1.3 Does the IP have statutory reporting requirements? Please describe.						
1.4 Is the governing body for the implementing partner independent?						
1.5 Is the organizational structure appropriate for the work to be carried out under UN cooperation?						
1.6 Does the organization have any pending legal actions against them?						
<i>Total number of questions in subject area</i>	6					
<i>Number of Questions marked</i>						

Appendix 5 – Micro Assessment Questionnaire (continued)

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
<i>"N/A" in subject area</i>						
<i>Total number of applicable questions in subject area</i>						
<i>Total Number of Risk Points</i>						
1. Implementing Partner overall risk assessment						Divide "Total Number of Risk Points" by "Total number of applicable questions in subject matter section" This amount should be rounded and as detailed on page 1 of this checklist and assigned an overall risk rating.
2. Funds Flow						
2.1 Can the entity receive and transfer funds?						
2.2 Are the arrangements to transfer the funds to the entity satisfactory?						
2.3 Have there been major problems in the past in receipt of funds by the entity, particularly where the funds flow from the Government/Ministry of Finance?						
2.4 In the past, has the entity had any problems in the management of disbursements from a member of the UN country team? Please describe.						
2.5 Does the entity have capacity to manage foreign						

Appendix 5 – Micro Assessment Questionnaire (continued)

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
exchange risks? (if it is expected that the entity will be using funds outside the country.)						
2.6 Does the IP have a process in place to access counterpart funds? Please describe.						
2.7 If some activities will be implemented by communities or NGOs, does the entity have the necessary reporting and monitoring mechanisms to track the use of funds?						
2.8 If funds have to flow through the Ministry of Finance, is there a standard timeline for funds to be distributed to the IP once received from UN?						
<i>Total number of questions in subject area</i>	8					
<i>Number of Questions marked "N/A" in subject area</i>						
<i>Total number of applicable questions in subject area</i>						
<i>Total Number of Risk Points</i>						
2. Funds Flow overall risk assessment						Divide "Total Number of Risk Points" by "Total number of applicable questions in subject matter section" This amount should be rounded and as detailed on page 1 of this checklist and assigned an overall risk rating.

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
3. Staffing						
3.1 Is the organizational structure of the accounting department appropriate for the level of financial volume? Attach an organization chart if available.						
3.2 Is the level and competency of staff appropriate for the level of financial volume? Identify the accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.						
3.3 Is the implementing partner finance and accounts function staffed adequately?						
3.4 Are finance and accounts staff adequately qualified and experienced?						
3.5 Are accounts and finance staff familiar with UN procedures related to cash transfers?						

Appendix 5 – Micro Assessment Questionnaire (continued)

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
3.6 Does the IP have all the key positions not filled / contracted? If not, provide the estimated date of appointment.						
3.7 Are staff frequently transferred? At what frequency?						
3.8 Does the IP have training policies for the finance and accounting staff? Please describe.						
3.9 Does the IP have familiarity working with the UN (including HACT Framework)? If so, please provide details.						
3.10 Inquire about the organization turnover rate over the past 5 years. Has it improved or worsened? Does it appear to be a problem? If so, what is the organization doing to address this issue?"						
3.11 Does the entity perform background verification/checks on all new hires? If alternative practices for processing new hires are in place, please provide a brief description.						
<i>Total number of questions in subject area</i>	11					

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
<i>Number of Questions marked "N/A" in subject area</i>						
<i>Total number of applicable questions in subject area</i>						
<i>Total Number of Risk Points</i>						
3. Staffing overall risk assessment						Divide "Total Number of Risk Points" by "Total number of applicable questions in subject matter section" This amount should be rounded and as detailed on page 1 of this checklist and assigned an overall risk rating.
4. Accounting Policies and Procedures						
4.1 Does the entity have an accounting system that allows for the proper recording of financial transactions from UN Agencies, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds?						
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
4.3 Is the chart of accounts adequate to properly account for and report on activities and disbursement categories?						
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?						
4.5 Are the general ledger and subsidiary ledgers reconciled and in balance?						
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?						
4.7 Does the IP have policies and procedures regarding tracking and reporting of UN resources? If so, please describe.						
4a. Segregation of Duties						
4.8 Are the following functional responsibilities performed by different units or persons: (a) authorization to execute a transaction; (b) recording of the transaction; and (c) custody of assets involved in the transaction?						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?						
4.10 Are bank reconciliations prepared by someone other than those who make or approve payments?						
4b. Budgeting System						
4.11 Do the budgets lay down physical and financial targets?						
4.12 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?						
4.13 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?						
4.14 Are approvals from variations from the budget required in advance or after the fact?						
4.15 Does the IP have a designated individual(s) who will be responsible for preparation						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
and approval of budgets?						
4.16 Are procedures in place to plan activities, collect information from the units in charge of the different components, and prepare the budgets?						
4.17 Are the plans and budgets of activities realistic, based on valid assumptions, and developed by knowledgeable individuals?						
4c. Payments						
4.18 Do invoice processing procedures provide for: Copies of purchase orders and receiving reports to be obtained directly from issuing departments? Comparison of invoice quantities, prices, and terms with those indicated on the purchase order and with records of goods actually received? Comparison of invoice quantities with those indicated on the receiving reports? Checking the accuracy of calculations?						
4.19 Are all invoices stamped 'PAID', dated, reviewed and approved, and clearly marked for						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
account code assignment?						
4.20 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?						
4d. Policies And Procedures						
4.21 Does the IP have a stated basis of accounting (e.g., cash, accrual)?						
4.22 Are internationally accepted accounting standards followed? If so, which standard?						
4.23 Does the entity have an adequate policies and procedures manual to guide activities and ensure staff accountability?						
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy, or procedure to be used by the entity?						
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities? Are these accessible?						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
4.26 Do policies and procedures clearly define <i>conflict of interest</i> and <i>related party transactions</i> (real and apparent) and provide safeguards to protect the organization from them?						
4.27 Are manuals distributed to appropriate personnel?						
4e. Cash and Bank						
4.28 Are there authorized signatories on the bank accounts that will be used for UN resources? If so, provide names.						
4.29 Does the implementing partner maintain an adequate, up-to-date cashbook, recording receipts and payments?						
4.30 Do controls exist for the collection, timely deposit, and recording of receipts at each collection location?						
4.31 Are bank and cash reconciled on a monthly basis?						
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
4.33 Are receipts deposited on a timely basis?						
4.34 Will UN resources be placed in a separate bank account?						
4.35 Are cash and checks maintained in a secure location? Has access been properly designated and maintained?						
4f. Safeguard Over Assets						
4.36 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse? If so, tour facility to ensure system has been implemented and followed.						
4.37 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?						
4.38 Are there periodic physical inventories of fixed assets and stocks?						
4.39 Are assets sufficiently covered by insurance policies?						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
4g. Other Offices or entities*²						
4.40 Are there any other regional offices or entities participating in implementation?						
4.41 Has the Implementing Partners established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities? Please describe approval process.						
4.42 Does information among the different offices/entities flow in an accurate and timely fashion?						
4.43 Are periodic reconciliations performed among the funds utilized by the different offices/entities?						
4.44 Does the IP have a process in place to evaluate the impact of any deficiencies or negative findings identified through reporting or discussions with the other offices/entities? If so, describe the process.						

² Other offices or entities refers to sub-offices of the implementing partners and/or respective parties.

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
4.45 Does the IP maintain contractual agreements with other entities?						
4.46 Does the IP have a process to ensure expenditures of other offices/entities are in compliance with AWP and/or contractual agreement noted in item 4.45 above?						
4h. Other						
4.47 Has the implementing partner advised employees, beneficiaries, and other recipients to whom to report if they suspect fraud, waste, or misuse of Agency resources or property?						
<i>Total number of questions in subject area</i>	47					
<i>Number of Questions marked "N/A" in subject area</i>						
<i>Total number of applicable questions in subject area</i>						
<i>Total Number of Risk Points</i>						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
4. Accounting Policies and Procedures overall risk assessment						Divide “Total Number of Risk Points” by “Total number of applicable questions in subject matter section” This amount should be rounded and as detailed on page 1 of this checklist and assigned an overall risk rating.
5. Internal Audit						
5.1 Is there an internal audit department in the entity?						
5.2 Does the IP have stated qualifications and experience requirements for audit department staff? If so, please describe.						
5.3 Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?						
5.4 Will the internal audit department include the activities financed by the Agencies in its work program?						
5.5 Are actions taken on the internal audit findings?						
5.6 Does the organization appear to have strong internal controls to ensure funds are expended for the intended purpose, discourage and prevent improper use of funds, and safeguard assets?						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
Total number of questions in subject area	6					
Number of Questions marked "N/A" in subject area						
Total number of applicable questions in subject area						
Total Number of Risk Points						
5. Internal Audit overall risk assessment						Divide "Total Number of Risk Points" by "Total number of applicable questions in subject matter section" This amount should be rounded and as detailed on page 1 of this checklist and assigned an overall risk rating.
6. External Audit						
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?						
6.2 Are there any delays in audit of the entity? When are the audit reports issued?						
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?						
6.4 Were there any major accountability issues brought out in the audit report of the past three years?						

Appendix 5 – Micro Assessment Questionnaire (continued)

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
6.5 Will the entity auditor audit the AWP accounts or will a separate auditor be appointed to audit the AWP financial statements?						
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?						
6.7 Has the implementing partner prepared audit plans?						
<i>Total number of questions in subject area</i>	7					
<i>Number of Questions marked "N/A" in subject area</i>						
<i>Total number of applicable questions in subject area</i>						
<i>Total Number of Risk Points</i>						
6. External Audit overall risk assessment						Divide "Total Number of Risk Points" by "Total number of applicable questions in subject matter section" This amount should be rounded and as detailed on page 1 of this checklist and assigned an overall risk rating.
7. Reporting and Monitoring						
7.1 Are financial statements prepared for the entity?						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
7.2 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so are useful to management for decision making?						
7.3 Does the reporting system need to be adapted to report on the AWP related expenditure?						
7.4 Does the reporting system have the capacity to link the financial information with the AWP's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?						
7.5 Does the Implementing Partner have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?						
7.6 Are financial management reports used by management?						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?						
7.8 Are financial reports prepared directly by the automated accounting system or are they or are they prepared by spreadsheets or some other means?						
7.9 Does the organization appear to be solvent (i.e. are its assets greater than its liabilities)? Are there any unexplained or ongoing inconsistencies. Have the organization's contributions been contracting (i.e. dwindling) over the past two years? If so, why and how is the organization going to address? Provide the following financial information for the current and prior fiscal years: Total Assets, Total Liabilities, Total Contributions, and Total Expenditures.						
<i>Total number of questions in subject area</i>	9					
<i>Number of Questions marked "N/A" in subject area</i>						

Appendix 5 – Micro Assessment Questionnaire (continued)

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
<i>Total number of applicable questions in subject area</i>						
<i>Total Number of Risk Points</i>						
7. Reporting and Monitoring overall risk assessment						Divide “Total Number of Risk Points” by “Total number of applicable questions in subject matter section” This amount should be rounded and as detailed on page 1 of this checklist and assigned an overall risk rating.
8. Information Systems						
8.1 Is the financial management system computerized?						
8.2 Can the system produce the necessary financial reports?						
8.3 Are the staff adequately trained to maintain the system?						
8.4 Does the management organization and processing system safeguard the confidentiality, integrity, and availability of the data?						
<i>Total number of questions in subject area</i>	4					
<i>Number of Questions marked “N/A” in subject area</i>						

Appendix 5 – Micro Assessment Questionnaire (continued)

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
<i>Total number of applicable questions in subject area</i>						
<i>Total Number of Risk Points</i>						
8. Information Systems overall risk assessment						Divide “Total Number of Risk Points” by “Total number of applicable questions in subject matter section” This amount should be rounded and as detailed on page 1 of this checklist and assigned an overall risk rating.
9. Procurement						
9.1 Does the entity have policies, procedures and guidelines regarding procurement activities?						
9.2 Do these procurement policies conform with the principles of: Best value for money considering all relevant factors, including costs and benefits Fairness, integrity and transparency; Open and effective international competition?						
9.3 Does the IP have clearly defined solicitation methods and thresholds for procurement based on the type of procurement and the cost of the procurement transaction?						

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
9.4 When making procurement awards, does the IP have defined evaluation criteria that incorporate the principles of quality and value for money?						
9.5 Does the entity maintain supporting documentation to support procurement transactions?						
9.6 Does the entity awarded previous contracts/procurement transactions in a prompt, fair and reasonable manner in full compliance with their procurement procedures? (Test 2-3 previously awarded contracts to ascertain the time between requisition and award, and reviews the documentation and the compliance to the organizations existing procurement procedures.)						
9.7 Is there segregation of the functions for the solicitation and evaluation of bid/quotes from the contract/transaction approval process (for example, are staff members assigned procurement tasks prohibited from performing tasks for payables and disbursements)?						

Appendix 5 – Micro Assessment Questionnaire (continued)

Subject Area	Yes	No	N/A	Risk Assessment	Risk Points	Remarks/Comments
9.8 Does the entity have a policy to avoid conflict of interest which requires “Declaration of No Conflict of Interest and Confidential Information”?						
9.9 Are staff members assigned procurement tasks prohibited from performing tasks for payables and disbursements?						
<i>Total number of questions in subject area</i>	9					
<i>Number of Questions marked “N/A” in subject area</i>						
<i>Total number of applicable questions in subject area</i>						
<i>Total Number of Risk Points</i>						

Appendix 6 – Agency Assurance Plan Template

Agency Assurance Plan

Overview of Assurance Plan

Assurance scheduling and results information collected in the plan sections will be continuously updated throughout the course of the programme cycle. For ease of management and use, it is suggested that the plan be excel based and contain the following tabs:

1. Cover sheet with summary of assurance plan metrics
 - Total number of IPs
 - Total programme funds
 - Distribution of risk ratings (% high, significant, moderate, low)
 - Distribution of CTMs (% direct cash transfer, reimbursement, direct payment)
2. IP Information
 - As defined below
3. Planned spot checks and audits for YEAR
 - As defined below but combined onto one excel tab
4. Repeats of #3 for each year of programme cycle

IP Information

The information below is specific to the IP is unlikely to change over the course of the programme cycle.

IP Name	Budgeted Programme Cycle Funding	Other Agencies	Summary Scope of Work	Micro Assessment Date	Risk Rating	CTM	Notes/ Comments

Definitions and use:

1. **IP Name:** Name of the implementing partner
2. **Total Programme Cycle Funding:** Total amount of agency funding to the IP during the current programme cycle
3. **Other Agencies:** Name and total programme cycle funding of other Agencies that share this IP
4. **Summary Scope of Work:** Details of the stated purpose noted in the Annual Work Plan (AWP)
5. **Micro Assessment Date:** Date of current programme cycle completed or planned micro assessment
6. **Risk Rating:** Low, Moderate, Significant, High based on framework guidance. Should default High if no micro assessment has been performed
7. **Cash Transfer Modality (CTM):** Direct Cash Transfers, Reimbursement, Direct Payment, or Direct Agency Implementation
8. **Notes/Comments:** Any other items to be noted (e.g. issues encountered, best practices identified, comments regarding other agencies which share the IP, etc.)

Spot Check Scheduling

IP Name	Total Spot Check Requirement	Total Spot Checks Completed	Spot Check X			
			Planned Date	Actual Date	Status	Results

Definitions and use:

1. **IP Name:** Name of the implementing partner
2. **Total Spot Check Requirement:** Total number of spot checks required for the current year per the framework guidance (e.g. two per year for Moderate risk rated IP)
3. **Total Spot Checks Completed:** Total number of spot checks completed during the current year
4. **Planned Date:** Date which Spot Check is planned to be performed. Update date as necessary for any changes.
5. **Actual Date:** Date which Spot Check was actually performed.

6. **Status:** Status should be indicated by color as follows:

- **Red** – have passed scheduled date and activity is not complete (plan is behind)
- **Yellow** – have not passed the scheduled date yet (plan is on track)
- **Green** – have passed the scheduled date and activity is underway/complete (plan is on track)

7. **Results:** Summary of the results or outcomes of the assurance activity including any change to the assurance plan as a result

Audit scheduling

IP Name	Required Frequency	Required Audit Type	Planned Date	Actual Date	Status	Results

Definitions and use:

1. **IP Name:** Name of the implementing partner
2. **Required Frequency:** The audit frequency per the framework guidance (e.g. 2nd and 4th year of 4 year programme cycle for Moderate risk rated IP)
3. **Required Audit Type:** Assessment of internal control or expenditure audit
4. **Planned Date:** Date which Audit is planned to be performed. Update date as necessary for any changes.
5. **Actual Date:** Date which Audit was actually performed.
6. **Status:** Status should be indicated by color as follows:
 - **Red** – have passed scheduled date and activity is not complete (plan is behind)
 - **Yellow** – have not passed the scheduled date yet (plan is on track)
 - **Green** – have passed the scheduled date and activity is underway/complete (plan is on track)

Results: Summary of the results or outcomes of the assurance activity including any change to the assurance plan as a result

Appendix 7 – Assurance Monitoring Dashboard

Assurance Monitoring Dashboard

Prepared as of the month ending: _____

Agency Name: _____

Country: _____

Prepared by: _____

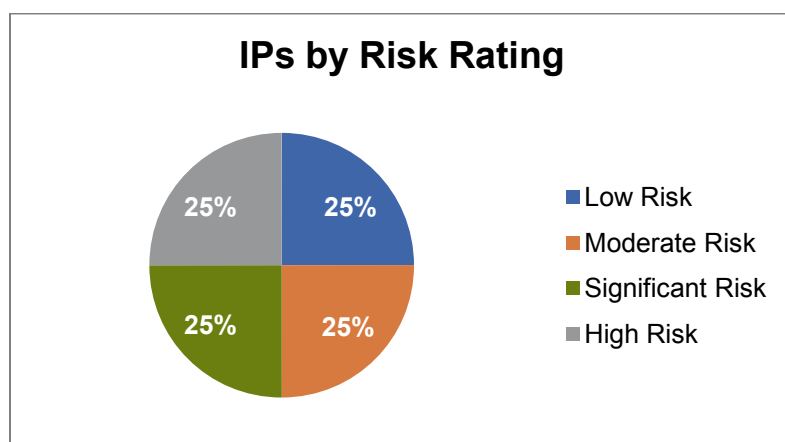
Implementation Year: _____

Programme Cycle: _____

Total Number of IPs: _____

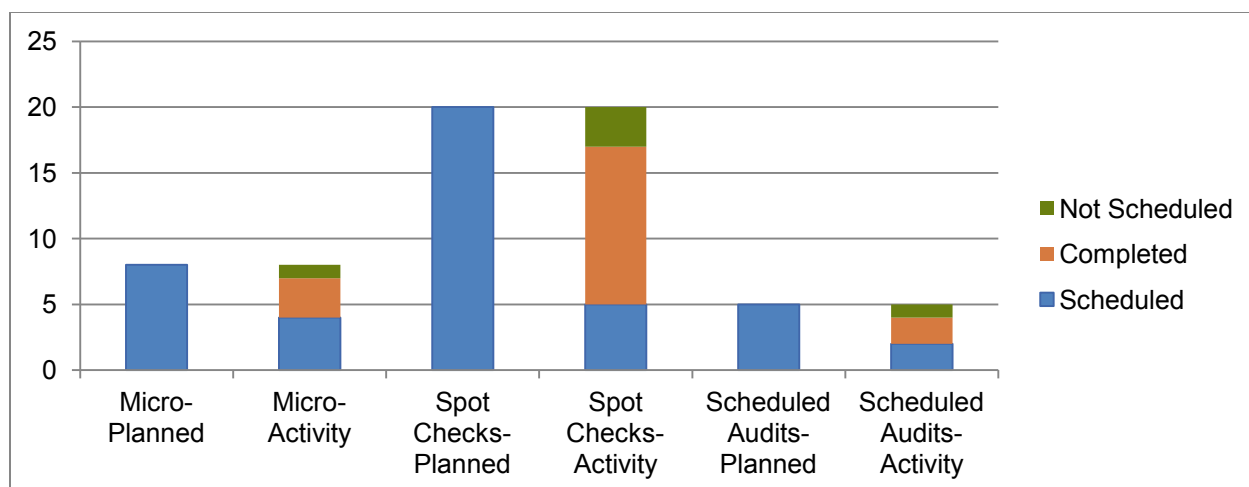
Concentration of IP by Risk Rating:

Right click on the graph below and select “Edit Data” to update



Year to Date Assurance Activities Status:

Right click on the graph below and select “Edit Data” to update



Comments:

Appendix 8 – Terms of Reference for Spot Checks Performed by Internal Agency Staff

Example Terms of Reference

Spot Check Agreed-Upon Procedures – performed by internal UN staff

The following example terms of reference has been compiled utilizing information from the various documents provided by UNICEF, UNDP, UNFPA, the HACT Advisory Committee and other development agencies. This example has been created to provide a document that would standardize the spot check requests and provide an example of a document ready to use by agency country offices.

This is an example document meant for discussion purposes only. This is not intended to be directly utilized for use by the UN agencies with third party service providers.

* * * * *

The terms of reference contained in this document have been developed to guide the United Nations (UN) ExCom Agencies (UNDP, UNICEF, UNFPA, WFP) (the Agencies, Agency) and the implementing partners (IP) through the objectives, scope, timeline and deliverables of the spot check. Refer to project specific information included in **Annex 1**.

Scope of the Spot Check:

The spot check provides an assessment of the IP internal controls relative to the accuracy of the financial records for cash transfers by the Agency(ies). The spot check is **not** an audit.

Spot Check Procedures

The following procedures should be performed during the spot check:

1. Compare documentation obtained describing the IP's financial management internal controls against the most recent micro assessment from the corresponding programme cycle. Document any changes or inconsistencies.
2. Inquire of IP management whether there have been any changes to internal controls since the prior micro assessment from the current programme cycle. Document any changes identified, if any.
3. Obtain a listing of all programme related expenditures during the **XX** month period ended **(date)** and perform the following:
 - Haphazardly select a sample of expenditures amounting to no less than 60%³ of total expenditures. Provide a detailed listing of expenditures selected as samples.
 - For each sample selection perform the following procedures:
 - Verify that documentation exists to support the expenditure in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures

³ percentage to be selected by the Agency in relation to their needs and requirements.

Appendix 8 – Terms of Reference for Spot Checks Performed by Internal Agency Staff (continued)

- Verify that the activity related to the expenditure is in accordance with the Annual Work Plan (AWP), Rolling Work Plan (RWP), Multi-year Work Plan (MWP), or agency equivalent
- Verify that the expenditure has been reviewed and approved in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures
- Verify that expenditure was reflected on a certified FACE form submitted to the Agency
- Verify that expenditure was reflected in the accounting records and bank statement of the IP
- Verify that supporting documents are stamped “PAID from XXX grant” indicating which agency funded the transaction
- Verify that the FACE form was submitted timely (within one week) of periodicity of disbursement requirement provided in the HACT framework
- Verify the price paid for goods or services against UN agreed standard rates (if readily available)

Deliverables:

‘Spot Check Workplan’ detailing procedures performed and results. Refer to example provided in **Annex 2**.

Qualifications to perform spot check:

The UN staff performing the spot check should possess the following qualifications:

- at least 3 years of experience in finance/accounting and/or programme
- understanding of the IP, the HACT framework and the objective of the spot check

Items to be acquired in advance of starting fieldwork:

- AWP, or agency equivalent, and any progress reports submitted during the year
- A list of individual transactions (i.e. IP’s accounting records) from the IP which lists and summarize the disbursements and FACE forms submitted during the period selected for assessment

Annex 1 – Programme Specific Information:

The following information should be completed by the agency country office prior to submitting to third party service provider.

Implementing Partner Name:	
Programme Name:	
Programme Number:	
Programme Background:	
Programme location:	
Programme contact person(s):	
Location of Records:	
Currency records maintained:	
Period of transactions covered by attestation engagement:	
Funds received and expenditure incurred during the period covered by the attestation engagement:	
Intended Start date of fieldwork:	
Estimated number of days required for fieldwork:	
Addressee of the Report:	
Submission Deadline (including draft and final reports to local agency management):	
Submission Logistics:	
Any special requests to be considered during the engagement:	
Cash Transfer Modality utilized by the IP:	

Annex 2 – Spot Check Workplan Example

Spot Check Workplan

Programme Title	
Project Title	
Name of Implementing Partner (IP)	
Location of IP	
Contact Person and Position (from the IP)	
Start/End Date of Spot-Check (dd/mm/yyyy – dd/mm/yyyy))	
Dates covered by selected FACE form (dd/mm/yyyy – dd/mm/yyyy)	
Date of Last Spot-Check (dd/mm/yyyy – dd/mm/yyyy)	
Member(s) of the Spot Check Team (Name, Designation, Section/Organization)	
IP staff whom the members of the Spot Check Team met and worked with during the Spot Check (Name, Designation, Organization)	

Internal Controls: Complete the following table regarding specific procedures regarding internal controls.

	Procedure	Findings
1	Compare documentation obtained describing the IP's financial management internal controls against the most recent micro assessment from the corresponding programme cycle. Document any changes or inconsistencies identified.	
2	Inquire of IP management whether there have been any changes to internal controls since the prior micro assessment from the current programme cycle. Document any changes identified, if any.	

Appendix 8 – Terms of Reference for Spot Checks Performed by Internal Agency Staff (continued)

Sample of Expenditures: Complete the following table for details related to each sample.

Sample Expenditure Description and Voucher Number	Sample Expenditure Amount Reported	Documentation exists to support the expenditure in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures	The activity related to the expenditure is in accordance with the Annual Work Plan (AWP), Rolling Work Plan (RWP), Multi-year Work Plan (MWP), or agency equivalent	Expenditure has been reviewed and approved in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures	Expenditure was reflected on a certified FACE form submitted to the Agency Verify that the expenditure was reflected in the accounting records and bank statement of the IP	Supporting documents are stamped "PAID from XXX grant" indicating which agency funded the transaction	FACE form was submitted timely (within one week) of periodicity of disbursement requirement provided in the HACT framework	Price paid for goods or services against UN agreed standard rates (if readily available)	Comment / Finding
Total Sample Expenditures									
Total Expenditures reported on FACE forms during period under Spot Check									
Percentage Coverage (‘Total Sample Expenditures’ divided by ‘Total Expenditures reported on FACE forms during period under Spot Check’)									

Appendix 9 – Terms of Reference for Spot Checks performed by External Service Provider

Example Terms of Reference

Spot-Check Agreed-Upon Procedures – performed by external consultant

The following example terms of reference has been compiled utilizing information from the various documents provided by UNICEF, UNDP, UNFPA, the HACT Advisory Committee and other development agencies. This example has been created to provide a document that would standardize the Spot-Check requests and provide an example of a document ready to use by agency country offices.

This is an example document meant for discussion purposes only. This is not intended to be directly utilized for use by the UN agencies with third party service providers.

* * * * *

The terms of reference contained in this document have been developed to guide the United Nations (UN) ExCom Agencies (UNDP, UNICEF, UNFPA, WFP) (the Agencies, Agency), the auditor and the implementing partners (IP) through the objectives, scope, timeline and deliverables of the requested agreed-upon procedures engagement. Refer to project specific information included in **Annex 1**.

Objective of Agreed-Upon Procedures engagements:

An agreed-upon procedures attest engagement is one in which an auditor is engaged to issue a report on factual findings based on specific, agreed-upon procedures performed.

As the auditor is engaged to report on findings of the agreed-upon procedures, no assurance is expressed. Instead, users of the report assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor's work.

The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results

Standards:

The attestation engagement should be conducted in accordance with International Standards on Related Services (ISRS) 4400, *Agreed-upon Procedures Regarding Financial Information*, or International Organization of Supreme Audit Institutions (INTOSAI).

Scope of the Spot-Check Agreed-Upon Procedures engagement:

The spot-check will assess the internal controls relative to the accuracy of the financial records for cash transfers by the Agency (ies). The spot-check is **not** an audit.

Spot-Check Procedures

1. Compare documentation obtained describing the IP's financial management internal controls against the most recent micro assessment from the corresponding programme cycle. Document any changes or inconsistencies.

2. Inquire of IP management whether there have been any changes to internal controls since the prior micro assessment from the current programme cycle. Document any changes identified, if any.
3. Obtain a listing of all programme related expenditures during the **XX** month period ended **(date)** for the agreed-upon procedures engagement and perform the following:
 - Haphazardly select a sample of expenditures amounting to no less than 60%⁴ of total expenditures. Provide a detailed listing of expenditures selected as samples.
 - For each sample selection perform the following procedures:
 - Verify that documentation exists to support the expenditure in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures
 - Verify that the activity related to the expenditure is in accordance with the Annual Work Plan (AWP), Rolling Work Plan (RWP), Multi-year Work Plan (MWP), or agency equivalent
 - Verify that the expenditure has been reviewed and approved in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures
 - Verify that expenditure was reflected on a certified FACE form submitted to the Agency
 - Verify that expenditure was reflected in the accounting records and bank statement of the IP
 - Verify that supporting documents are stamped “PAID from XXX grant” indicating which agency funded the transaction
 - Verify that the FACE form was submitted timely (within one week) of periodicity of disbursement requirement provided in the HACT framework
 - Verify the price paid for goods or services against UN agreed standard rates (if readily available)

Deliverables:

Agreed-upon Procedures Report:

1. The auditor shall prepare a standard agreed-upon procedures report in accordance with the applicable standards, which includes:
 - An enumeration of the agreed-upon procedures performed and a summary of corresponding factual findings;

⁴ percentage to be selected by the Agency in relation to their needs and requirements.

- A statement indicated that the report is intended solely for the information and use of the specified parties;
- An identification of the specified parties to whom use is restricted;
- A statement that the report is not intended to be and should not be used by anyone other than the specified parties; and
- An explicit statement that the scope of agreed-upon procedures does not provide the same level of assurance as that of an audit or review.

A report template following ISRS 4400 has been included in **Annex 2**.

2. The auditor shall prepare a ‘Spot-Check Workplan’ detailing work performed. Refer to example provided in **Annex 3**.

Qualification of the Auditor:

As noted in ISRS 4400 paragraph 7:

“The auditor should comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code). Ethical principles governing the auditor’s professional responsibilities for this type of engagement are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality;
- (e) Professional behavior; and
- (f) Technical standards.

Independence is not a requirement for agreed-upon procedures engagements; however, the terms or objectives of an engagement or national standards may require the auditor to comply with the independence requirements of the IESBA Code. Where the auditor is not independent, a statement to that effect would be made in the report of factual findings.

The auditor should be experienced in applying international standards for auditing – either ISRS or INTOSAI audit standards. If hiring staff, the auditor should employ staff with recognized professional qualifications and suitable experience with ISRS or INTOSAI standards, including experience in reviewing similar entities. Curriculum vitae (CV) of all members of the assessment team should be provided. The CVs should include details on audits carried out by the relevant staff, including ongoing assignments indicating responsibilities assumed by them, and their qualifications and experience in undertaking audits.

Items to be provided to the auditor in advance of starting fieldwork:

The agency will provide the following documentation in advance of the auditor starting fieldwork:

- AWP, or agency equivalent, and any progress reports submitted during the year
- A list of individual transactions (i.e. IP's accounting records) from the IP which lists and summarize the disbursements and FACE forms submitted during the period selected for assessment
- A list of findings of the micro assessment of the Implementing Partner, reports of relevant field monitoring visits, available audits reports and other documentation that may help to understand the Implementing Partner's internal controls and supported activities

The auditors should review the information received and provide the IP with a document request listing in advance of any site-visits to ensure efficiency.

Annex 1 – Programme Specific Information:

The following information should be completed by the agency country office prior to submitting to third party service provider.

Implementing Partner Name:	
Programme Name:	
Programme Number:	
Programme Background:	
Programme location:	
Programme contact person(s):	
Location of Records:	
Currency records maintained:	
Period of transactions covered by attestation engagement:	
Funds received and expenditure incurred during the period covered by the attestation engagement:	
Intended Start date of fieldwork:	
Estimated number of days required for fieldwork:	
Addressee of the Report:	
Submission Deadline (including draft and final reports to local agency management):	
Submission Logistics:	
Any special requests to be considered during the engagement:	
Cash Transfer Modality utilized by the IP:	

Annex 2 – Example ISRS 4400 Agreed-Upon Procedures Report – Spot-Check

Annex 3: ISRS 4400 Agreed-upon procedures Report Template:

REPORT OF FACTUAL FINDINGS

To (those who engaged the auditor)

We have performed the procedures agreed with you and enumerated below with respect to the programme disbursements related to [insert programme name and number] as at (for the XX month period ended) (date), set forth in the accompanying management letter. Our engagement was undertaken in accordance with the International Standard on Related Services (or refer to relevant national standards or practices) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the validity of accounting records that support cash transfers from (Agency) and are summarized as follows:

1. Compare documentation obtained describing the IP's financial management internal controls against the most recent micro assessment from the corresponding programme cycle. Document any changes or inconsistencies.
2. Inquire of IP management whether there have been any changes to internal controls since the prior micro assessment from the current programme cycle. Document any changes identified, if any.
3. Obtain a listing of all programme related expenditures during the XX month period ended (date) for the agreed-upon procedures engagement and perform the following:
 - Haphazardly select a sample of expenditures amounting to no less than 60% of total expenditures. Provide a detailed listing of expenditures selected as samples.
 - For each sample selection perform the following procedures:
 - Verify that documentation exists to support the expenditure in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures
 - Verify that the activity related to the expenditure is in accordance with the Annual Work Plan (AWP), Rolling Work Plan (RWP), Multi-year Work Plan (MWP), or agency equivalent
 - Verify that the expenditure has been reviewed and approved in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures
 - Verify that expenditure was reflected on a certified FACE form submitted to the Agency
 - Verify that expenditure was reflected in the accounting records and bank statement of the IP
 - Verify that supporting documents are stamped "PAID from XXX grant" indicating which agency funded the transaction

Appendix 9 – Terms of Reference for Spot Checks performed by External Service Provider (continued)

- Verify that the FACE form was submitted timely (within one week) of periodicity of disbursement requirement provided in the HACT framework
- Verify the price paid for goods or services against UN agreed standard rates (if readily available)

We report our findings below:

- With respect to item 1 we found [provide details of findings].
- With respect to item 2 we found [provide details of findings].
- With respect to item 3 we found [provide details of findings].

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), we do not express any assurance on the programme disbursements as of (for the XX month period ended) (date).

Had we performed additional procedures or had we performed an audit or review of the financial statement in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the items specified above and does not extend to any financial statement of the implementing partner, taken as a whole.

Auditor Signature

Date

Address

Annex 3 – Spot-Check Workplan Example

Spot Check Workplan

Programme Title	
Project Title	
Name of Implementing Partner (IP)	
Location of IP	
Contact Person and Position (from the IP)	
Start/End Date of Spot-Check (dd/mm/yyyy – dd/mm/yyyy)	
Dates covered by selected FACE form (dd/mm/yyyy – dd/mm/yyyy)	
Date of Last Spot-Check (dd/mm/yyyy – dd/mm/yyyy)	
Member(s) of the Spot Check Team (Name, Designation, Section/Organization)	
IP staff whom the members of the Spot Check Team met and worked with during the Spot Check (Name, Designation, Organization)	

Internal Controls: Complete the following table regarding specific procedures regarding internal controls.

	Procedure	Findings
1	Compare documentation obtained describing the IP's financial management internal controls against the most recent micro assessment from the corresponding programme cycle. Document any changes or inconsistencies identified.	
2	Inquire of IP management whether there have been any changes to internal controls since the prior micro assessment from the current programme cycle. Document any changes identified, if any.	

Appendix 9 – Terms of Reference for Spot Checks performed by External Service Provider (continued)

Sample of Expenditures: Complete the following table for details related to each sample.

Sample Expenditure Description and Voucher Number	Sample Expenditure Amount Reported	Documentation exists to support the expenditure in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures	The activity related to the expenditure is in accordance with the Annual Work Plan (AWP), Rolling Work Plan (RWP), Multi-year Work Plan (MWP), or agency equivalent	Expenditure has been reviewed and approved in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures	Expenditure was reflected on a certified FACE form submitted to the Agency Verify that the expenditure was reflected in the accounting records and bank statement of the IP	Supporting documents are stamped “PAID from XXX grant” indicating which agency funded the transaction	FACE form was submitted timely (within one week) of periodicity of disbursement requirement provided in the HACT framework	Price paid for goods or services against UN agreed standard rates (if readily available)	Comment / Finding
Total Sample Expenditures									
Total Expenditures reported on FACE forms during period under Spot Check									
Percentage Coverage (‘Total Sample Expenditures’ divided by ‘Total Expenditures reported on FACE forms during period under Spot Check’)									

Appendix 10 – Terms of Reference for Management Letter

Example Terms of Reference

Management Letter prepared in accordance with Institute of Internal Auditors' International Professional Practices Framework (IPPF)

The following example terms of reference has been compiled utilizing information from the various documents provided by UNICEF, UNDP, UNFPA and other development agencies. This example has been created to provide a document that would standardize the Management Letter requests and provide an example of a document ready to use by agency country offices.

This is an example document meant for discussion purposes only. This is not intended to be directly utilized for use by the UN agencies with third party service providers.

* * * * *

The terms of reference contained in this document have been developed to guide the United Nations (UN) ExCom Agencies (UNDP, UNICEF, UNFPA, WFP) (the Agencies), the auditor and the implementing partners (IP) through the objectives, scope, timeline and deliverables of the requested audit. Refer to IP/project specific information included in **Annex 1**.

Objective:

The purpose of providing a Management Letter is to communicate observations, findings and recommendations related to deficiencies in internal control that the auditor has identified during the engagement performed in accordance with standards noted below.

Scope:

The engagement would include the IP's internal controls regarding their financial management system as at the period indicated in **Annex 1**.

Standards:

The Management Letter is to be prepared in accordance with the Institute of Internal Auditors' International Professional Practices Framework (IPPF). This Management Letter does not provide any assurance or opinion regarding the IP's internal controls.

Deliverable:

The Management Letter should be addressed to those charged with governance and include the following:

- A description of the deficiencies, an explanation of their potential effects and recommendations to address the potential effects
- Sufficient information to enable those charged with governance and management to understand the context of the communication.
- A general review of a project's progress and timeliness in relation to progress milestones and the planned completion date, both of which should be stated in the project document or Annual Work Plan (AWP). This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs. However, general

compliance with broad covenants such as implementing the project with economy and efficiency might be commented upon but not with the legal force of an audit opinion.

- The categorization of audit observations by risk severity:
 - *High* – Action that is considered imperative to ensure that the agency is not exposed to high risks (i.e. failure to take action could result in major consequences and issues);
 - *Medium* – Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences); or
 - *Low* – Action that is considered desirable and should result in enhanced control or better value for money.
- Management response to the auditor's observations and recommendations.

A template for the management letter has been provided in **Annex 2**.

Qualification of auditor:

The auditor is subject to relevant ethical requirements provided in the Institute of Internal Auditor's (IIA) Code of Ethics together with national requirements that are more restrictive.

The auditor should have experience in performing audits under IIA or INTOSAI standards. The auditor should employ staff auditors with recognized professional qualifications and suitable experience with IIA or INTOSAI standards, including experience in undertaking engagements of similar size and nature to this proposed. Curriculum vitae (CV) of all members of the audit team should be provided to the contracting Agency. The CVs should include details on relevant audits carried out by the audit team, including ongoing assignments indicating responsibilities assumed, relevant professional qualifications and experience in undertaking audits of similar size and nature.

Annex 1 – Programme Specific Information:

The following information should be completed by the agency country office prior to submitting to third party service provider.

Implementing Partner Name:	
Programme Name:	
Programme Number:	
Programme Background:	
Programme location (physical):	
Programme web address:	
Programme contact person(s):	
Location of Records:	
Currency records maintained:	
Period covered:	
Intended Start date of fieldwork:	
Estimated number of days required for fieldwork:	
Addressee of Management Letter:	
Submission Deadline (including draft and final reports to local agency management):	
Submission Logistics:	
Any special requests to be considered during audit:	
Cash Transfer Modality utilized by the IP:	

Annex 2: Management Letter template in accordance with IPPF

Table of Contents

	Page no.
I. Executive Summary	72
II. Audit Objectives, Scope and Operational Overview	73
III. Detailed Assessment	74
A: Overall Project Management	74
B: Financial Operations, Controls And Cash/Fund Management	75
C: Contracting for Procurement of Goods and Services	76
d: Staffing and Management of Human Resources	77
E. Asset/Property Management, ICT and General Issues	78
F. Other Observations – Without Audit Recommendations	79
Annex 1: Definitions of Ratings, Priorities, Causes and Functional Areas for Management Report	80
Annex 2: Summary of Audit Recommendations:	82

Glossary

Acronym	Definition
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I. Executive Summary

1.1 Background

On behalf of the [Insert agency name and name of internal audit], [insert auditor firm name] conducted an engagement in accordance with Institute of Internal Auditors' International Professional Practices Framework (IPPF), regarding xxx Project bearing project ID number XXXXX in XXX 20XX (*month and year*). The engagement was carried out with the assistance of [here insert name of firm]

The purpose of the engagement was to for the auditor to carry out procedures of an advisory nature. The engagement included the period from XXX until XXXX 20XX (*insert month and year*).

1.2 Overall Assessment

Based on the weighted rating per agency guidance of the individual areas, the overall level of internal control with respect to the XXXX project's operations is considered to be **Satisfactory/Partially Satisfactory/Unsatisfactory**⁵. It should be noted, however, that we consider the level of internal control in XXXX area to be **Satisfactory/Partially Satisfactory/Unsatisfactory** (*if any*).

The specific ratings for the main areas covered by the audit are as follows:

Effectiveness of Internal Control				
	Allocation of Risk Identified (weight)	Score	Weighted Score ⁶	Rating
Programme/project management				
Financial operation and controls				
Procurement management				
Human Resources				
Assets, ICT and General admin.				
Overall rating	100%			

⁵ "Unsatisfactory" is rated when the weighted score is from 1.00 to 3.99, "Partially Satisfactory" from 4.00 to 7.99 and "Satisfactory" from 8.00 to 10.00

⁶ This individual weighted scored was based on multiplication between individual score and the weighted score based on level of risk of each section to overall risk.

Management should consider this rating within the context that XXXX project management team should attempt to strengthen its management practices in the following areas:

- Xx
- xx

1.3 Highlights

This letter contains XX recommendations, of which XX are considered High priority, XX are considered Medium priority and XX is considered to be of Low priority, as per definitions available at Annex 1. These recommendations are summarized above and detailed throughout this report and in Annex 2.

1.4 Good Practices observed:

XXX

II. Audit Objectives, Scope and Operational Overview

2.1 Objectives and Scope

The overall objectives and scope of the engagement are shown below.

2.1.1 Objectives:

[insert objectives]

2.1.2 Scope:

During the engagement, relevant samples of documents and transactions for the period covered by the engagement. Discussions were held with [insert agency name] staff and personnel at headquarters and in the field throughout the engagement.

2.2 Standards

The engagement has been conducted as per the Institute of Internal Auditors' International Professional Practices Framework (IPPF).

2.3 Operational Overview

[Here provide a brief background of the project, including, project budget, expenditure, staffing, and key financial indicators.]

2.4 Office Management

The management of the XX Project at the time of the engagement consisted of:

- Mr. XXX
- Mr. XXX

The engagement team extends its appreciation to the management and staff members of [insert agency name] office in XXX project for their full cooperation during the engagement.

III. Detailed Assessment

The details of the findings are contained in the subsequent **Audit Subject A to F** of this report

A: Overall Project Management

Good Practices observed:

XXXX

Observation A.1:

This is where the observation is written. Clearly describe the findings as follows:

- *State the criteria, requirement or the expected conditions*
- *State the current condition or the situation that deviates from the criteria, requirement or the expected conditions*
- *State the conclusions*

State the cause(s) or reason(s) for the difference between the criteria, requirement, or the expected condition and the actual condition. [In this context, you may want to offer several contributing factors or reasons underlying the audit observations. To the extent possible, identify the root cause for a particular issue.]

Impact or risk:

Recommendation:

xxxx

Status of Recommendation: *Open or closed (to be decided after obtaining management replies)*

Observation A.2:

[same format as above]

B: Financial Operations, Controls And Cash/Fund Management

The following compliance and good practices were noted:

- XXX

Observation B.1:

This is where the observation is written. Clearly describe the findings as follows:

- *State the criteria, requirement or the expected conditions*
- *State the current condition or the situation that deviates from the criteria, requirement or the expected conditions*
- *State the conclusions*

State the cause(s) or reason(s) for the difference between the criteria, requirement, or the expected condition and the actual condition. [In this context, you may want to offer several contributing factors or reasons underlying the audit observations. To the extent possible, identify the root cause for a particular issue.]

Impact or risk:

Recommendation:

xxxx

Status of Recommendation: *Open or closed (to be decided after obtaining management replies)*

Observation B.2:

[same format as above]

C: Contracting for Procurement of Goods and Services

The following compliance and good practices were observed in the procurement process:

- Xxx

The following audit observations are made:

Observation C.1:

This is where the observation is written. Clearly describe the findings as follows:

- *State the criteria, requirement or the expected conditions*
- *State the current condition or the situation that deviates from the criteria, requirement or the expected conditions*
- *State the conclusions*

State the cause(s) or reason(s) for the difference between the criteria, requirement, or the expected condition and the actual condition. [In this context, you may want to offer several contributing factors or reasons underlying the audit observations. To the extent possible, identify the root cause for a particular issue.]

Impact or risk:

Recommendation:

Xxxx

Status of Recommendation: *Open or closed (to be decided after obtaining management replies)*

Observation C.2:

[same format as above]

D: Staffing and Management of Human Resources

The following compliance and good practices were observed:

- Xxx

The following audit observations are made:

Observation D.1:

This is where the observation is written. Clearly describe the findings as follows:

- *State the criteria, requirement or the expected conditions*
- *State the current condition or the situation that deviates from the criteria, requirement or the expected conditions*
- *State the conclusions*

State the cause(s) or reason(s) for the difference between the criteria, requirement, or the expected condition and the actual condition. [In this context, you may want to offer several contributing factors or reasons underlying the audit observations. To the extent possible, identify the root cause for a particular issue.]

Impact or risk:

Recommendation:

xxxx

Status of Recommendation: *Open or closed (to be decided after obtaining management replies)*

Observation D.2:

[same format as above]

E. Asset/Property Management, ICT and General Issues

The following compliance and good practices were observed:

- Xxxx

The following audit observations are made:

Observation E.1:

This is where the observation is written. Clearly describe the findings as follows:

- *State the criteria, requirement or the expected conditions*
- *State the current condition or the situation that deviates from the criteria, requirement or the expected conditions*
- *State the conclusions*

State the cause(s) or reason(s) for the difference between the criteria, requirement, or the expected condition and the actual condition. [In this context, you may want to offer several contributing factors or reasons underlying the audit observations. To the extent possible, identify the root cause for a particular issue.]

Impact or risk:

Recommendation:

xxxx

Status of Recommendation: *Open or closed (to be decided after obtaining management replies)*

Observation E.2:

[same format as above]

F. Other Observations – Without Audit Recommendations

The following other audit observations are made, on which no audit recommendations are being issued:

- Xxxx

Observation F.1:

This is where the observation is written. Clearly describe the findings as follows:

- *State the criteria, requirement or the expected conditions*
- *State the current condition or the situation that deviates from the criteria, requirement or the expected conditions*
- *State the conclusions*

State the cause(s) or reason(s) for the difference between the criteria, requirement, or the expected condition and the actual condition. [In this context, you may want to offer several contributing factors or reasons underlying the audit observations. To the extent possible, identify the root cause for a particular issue.]

Impact or risk:

Annex 1: Definitions of Ratings, Priorities, Causes and Functional Areas for Management Report

The following ratings have been defined so that management can place in context the opinions given in internal audit reports.

A. Ratings for overall performance of internal control system:

The harmonized rating system being applied by the internal audit services of UNICEF, UNFPA, WFP, UNDP and UNOPS effective 1 January 2010 is based on the following principles:

There are three categories: (a) satisfactory, (b) partially satisfactory, and (c) unsatisfactory.

The elements of the rating system will take into account the audited office's internal control system, risk management practices, and their impact on the achievement of office objectives.

The definitions of the ratings are, as follows:

Standard Rating	Definition
Satisfactory	Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the implementing partner.
Partially Satisfactory	Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the implementing partner.
Unsatisfactory	Internal controls, governance and risk management processes were either not established or not functioning well. The issues identified were such that the overall objectives of the implementing partner could be seriously compromised.

B. Rating for priorities of audit recommendations, possible causes and functional areas

The observations are categorized according to the priority of the audit recommendations and the possible causes of the issues. The categorized observation provides a basis by which the [insert agency name] country office management is to address the issues.

The following categories of priorities are used:

Rating	Definition
High	Action that is considered imperative to ensure that the agency is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).
Medium	Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).
Low	Action that is considered desirable and should result in enhanced control or better value for money.

The following categories of possible causes are used:

Compliance Failure to comply with prescribed agency regulations, rules and procedures.

Guidelines Absence of written procedures to guide staff in the performance of their functions.

Guidance Inadequate or lack of supervision by supervisors.

Human error Mistakes committed by staff entrusted to perform assigned functions.

Resources Lack of or inadequate resources (funds, skills, staff, etc.) to carry out an activity or function.

The following categories of functional areas are used:

- General policy;
- Project/Programme activities;
- Finance;
- Human resources;
- Procurement;
- Information technology; and
- General administration.

Annex 2: Summary of Audit Recommendations:

IMPORTANT: MANAGEMENT COMMENTS ARE INCORPORATED IN THIS SUMMARY SHEET ALONG WITH THE FURTHER COMMENTS OF ATTESTATION.

The Excel sheet should contain the following columns:

1. Recommendation number
2. Recommendation
3. Management Reply
4. Priority
5. Cause
6. Area
7. Further comments of Attestation
8. Responsible Manager
9. Expected completion date
10. Status (open/closed)

Sample as below:

Annex 2: Management replies and status of recommendations on attestation of XX project

1	2	3	4	5	6	7	8	9	10
Recommendation #	Recommendation	Management reply	Priority	Cause	Area	Further comments of Audit	Responsible Manager	Expected Completion date	Status
									OPEN/CLOSED
1									

Appendix 11 – Comparison of Current Agency and HACT Audit Models

Appendix 11 – Comparison of Current Agency and HACT Audit Models (continued)

Elements of Assurance Model	UNDP	UNFPA	UNICEF	HACT per Original Framework
Responsibility for Audit	Agency/Country Office	Agency/Country Office	Agency/Country Office	Agency/Country Office
Audit	NIM-Performed by external consultants and are procured locally with technical assistance/review of reports by HQ (OAI)	NEX-Performed by external consultants procured by headquarters	Performed by external consultant procured locally Utilize HACT Audit TOR	Performed by external consultants procured locally
Nature of Audit	Substantive	Substantive	Internal Control Assessment/Systems based	Internal Control Assessment/Systems based
Standards	International Auditing Standards (ISA) or national standards that comply with one of the ISA in all material respects	International Auditing Standards (ISA) 800, Audit of Special Purpose Financial Statements	INTOSAI Guidelines for Internal Control Standards No financial audit standards provided	INTOSAI Guidelines for Internal Control Standards No financial audit standards provided
Financial Statement Audit Deliverables	Audit report on project financial statements	Audit Opinion, Audit Observations and Recommendations, Certified Financial Statements, Certified copies of FACE forms	Review of a sample of FACE forms and transaction testing provided in Executive Summary with key findings No financial statement audit report required or provided	Review of a sample of FACE forms and transaction testing provided in Executive Summary with key findings No financial statement audit report required or provided
Internal Control Consideration	Audit to assess and express an opinion on the project's internal controls and systems. A management letter should include any internal control weaknesses identified and audit recommendations to address them.	Auditor should obtain an understanding of internal controls but no opinion on internal controls required	An opinion on the functioning of internal controls	An opinion on the functioning of internal controls

Appendix 11 – Comparison of Current Agency and HACT Audit Models (continued)

Elements of Assurance Model	UNDP	UNFPA	UNICEF	HACT per Original Framework
Financial Spot Checks	Performed by Country Office Staff or external firm. Assurance maintained primarily through NIM audits	Performed by Country Office Staff or external firm. Assurance maintained primarily through NEX audits	Performed by Country Office Staff or external firm. Used to as part of overall assurance model, in conjunction with audits	Performed by Country Office Staff or external firm. Used to as part of overall assurance model, in conjunction with audits
Board of Auditor Reliance	NIM Audit Reports	NEX Audit Reports	Local audits of IPs	Limited implementation of HACT framework to date
Role of Internal Audit	Audits of COs. Review NIM and HACT audit reports.	Audits of COs. Do not review individual NEX or HACT audits	Audits of Country Offices, including CO's processes for audit of IPs	See agency specific

Appendix 12 – Terms of Reference for Agreed upon Procedures regarding Implementing Partner's Internal Controls (Internal Control Audit)

Example Terms of Reference

Agreed-up Procedures regarding Implementing Partner’s Internal Controls and sample of FACE forms

The following example terms of reference has been compiled utilizing information from the various documents provided by UNICEF, the HACT Advisory Committee and other development agencies. This example has been created to provide a document that would standardize the Implementing Partner’s Internal Controls audit requests and provide an example of a document ready to use by agency country offices.

This is an example document meant for discussion purposes only. This is not intended to be directly utilized for use by the UN agencies with third party service providers.

* * * * *

The terms of reference contained in this document have been developed to guide the United Nations (UN) ExCom Agencies (UNDP, UNICEF, UNFPA, WFP) (Agencies), the auditor and the implementing partners (IP) through the objectives, scope, timeline and deliverables of the requested agreed-upon procedures engagement. Refer to project specific information included in **Annex 1**.

Objective of the Agreed-upon Procedures engagement:

The objective of an agreed-upon procedures attest engagement is one in which an auditor is engaged to issue a report of findings based on specific procedures performed on subject matter.

As the auditor is engaged to report on factual findings of the agreed-upon procedures, no assurance is expressed. Instead, users of the report assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor’s work.

The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

Standards:

The attestation engagement should be conducted in accordance with International Standards on Related Services (ISRS) 4400, *Agreed-upon Procedures Regarding Financial Information*, or International Organization of Supreme Audit Institutions (INTOSAI).

Scope of the Attestation engagement:

Internal Controls

The agreed-upon procedures are performed to assist the IP in their assessment of internal control of the financial management system. The specific procedures to be performed can be adapted by the Agency to suit the specific IP and agency agreement needs (e.g. AWP, RWP, MWP, or agency equivalent). The auditor should agree in writing to perform the procedures enumerated below in order to assist the IP in their assessment and to report on factual findings.

Appendix 12 – Terms of Reference for Agreed upon Procedures regarding Implementing Partner's Internal Controls (Internal Control Audit) (continued)

Specific procedures to be performed:

1. Obtain documentation describing the IP's financial management internal controls and report on whether the documentation includes controls related to the following areas of financial management:
 - a. Authorizing expenditures-including FACE forms and requests for direct payment
 - i. expenditures authorized in accordance with IP policies and procedures
 - ii. expenditure included in activity detailed in the Annual Work Plan (AWP) Rolling Work Plan (RWP), Multi-year Work Plan (MWP), or agency equivalent
 - iii. expenditures supported by documentation consistent with the IP policies and procedures and HACT Framework
 - b. Preparation and certification of FACE forms
 - i. ensure competitive bids are obtained for expenditures described in the AWP, RWP or MWP in accordance with agency specific guidelines
 - ii. vendors are consistent with Financial Regulations and Rules (FRR) and agency procurement procedures
 - c. Procurement/Contracting of supplies and services
 - i. procurement of supplies and services is consistent with Financial Regulations and Rules (FRR) and agency procurement procedures, including requirements for competitive procurement
 - ii. supplies and services agree with those required by the AWP, RWP, MWP, or agency equivalent
 - d. Adequacy of the accounting and financial operations and reporting systems
 - i. IP has an accounting manual or guidelines
 - ii. Accounting methodology comply with applicable standards in the IP country of operation
 - iii. Segregation of duties exists in the components of the accounting and management departments
 - iv. IP maintains a separate accounting record/sub-ledger to record transactions against the cash transfers for the agency

Appendix 12 – Terms of Reference for Agreed upon Procedures regarding Implementing Partner’s Internal Controls (Internal Control Audit) (continued)

- e. Maintenance and security of accounting records
 - i. IP facilities have security procedures to protect against theft, damage, or loss of data
- f. Safeguarding assets
 - i. IP facilities have security procedures to protect against theft, damage, or loss of data

If the IP does not have internal controls related to the above noted areas document as a finding.

2. Select a sample of control instances during the period in-scope for the attestation engagement amounting to 50 – 70% of total control instances for each control (e.g. for a monthly control, sample selections should be made for 6 – 9 instances during the period). Selections should be made haphazardly. For each sample selection perform the following procedures:
 - a. Obtain relevant supporting documentation to verify that the control occurred as described.
 - b. Verify that the actual date of occurrence was within 2 weeks (14 days business days) of the occurrence (i.e. for a monthly control, the January 31 control occurrence should have occurred within 14 business days of February following month).

Sample of Expenditures

3. Obtain a listing of all programme related expenditures during the period in-scope for the attestation engagement and perform the following:
 - a. Haphazardly select a sample of expenditures amounting to 70% of total expenditures. Provide a detailed listing of expenditures selected as samples.
 - b. For each sample selection perform the following procedures:
 - Verify documentation exists to support the expenditure in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures, including transparent selection process for procurement of goods and services
 - Verify activity is in accordance with the AWP, RWP, MWP, or agency equivalent
 - Verify expenditure has been properly reviewed and approved in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures
 - Verify expenditure was properly reflected on certified FACE form submitted to agency
 - Trace the sample transactions into the accounting records and bank statement of the IP
 - Verify that supporting documents are stamped “PAID from XXX grant” indicating which agency funded the transaction
 - Verify submission of related FACE form was timely (within one week) of periodicity of disbursement requirement provided in the HACT framework

Appendix 12 – Terms of Reference for Agreed upon Procedures regarding Implementing Partner's Internal Controls (Internal Control Audit) (continued)

- Compare the price paid for goods or services against agreed standard rates (if readily available)

Deliverables:

Agreed-upon Procedures Report:

The auditor shall prepare a standard agreed-upon procedures report in accordance with the applicable standards, which includes:

- Details of procedures performed and corresponding findings
- Details that the scope of agreed-upon procedures vary from that of an audit or review
- Limits the distribution of the report

A report template following ISRS 4400 has been included in **Annex 2**.

Qualification of the Auditor:

As noted in ISRS 4400 paragraph 7:

“The auditor should comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code). Ethical principles governing the auditor's professional responsibilities for this type of engagement are:

- a) Integrity;
- b) Objectivity;
- c) Professional competence and due care;
- d) Confidentiality;
- e) Professional behavior; and
- f) Technical standards.

Independence is not a requirement for agreed-upon procedures engagements; however, the terms or objectives of an engagement or national standards may require the auditor to comply with the independence requirements of the IESBA Code. Where the auditor is not independent, a statement to that effect would be made in the report of factual findings.

The auditor should be experienced in applying international standards for auditing – either ISRS or INTOSAI audit standards. If hiring staff, the auditor should employ staff with recognized professional qualifications and suitable experience with ISRS or INTOSAI standards, including experience in reviewing similar entities. Curriculum vitae (CV) of all members of the assessment team should be provided. The CVs should include details on audits carried out by the relevant staff, including ongoing assignments indicating responsibilities assumed by them, and their qualifications and experience in undertaking audits.

Items to be Provided to the Auditor in Advance of Starting Fieldwork

The agency will provide the following documentation in advance of the auditor starting fieldwork:

- AWP and any progress reports submitted during the year
- Signed CDR
- The FACE forms included in the CDR, duly certified as to their accuracy and completeness
- The Direct Payment requests authorized by the IP and included in the CDR
- Previous audit reports and other relevant assessments (e.g. micro assessment)

The auditors should review the information received and provide the IP with a document request listing in advance of any site-visits to ensure efficiency.

Annex 1 – Programme Specific Information:

The following information should be completed by the agency country office prior to submitting to third party service provider.

Implementing Partner Name:	
Programme Name:	
Programme Number:	
Programme Background:	
Programme location:	
Programme contact person(s):	
Location of Records:	
Currency records maintained:	
Period of transactions covered by attestation engagement:	
Funds received and expenditure incurred during the period covered:	
Intended Start date of fieldwork:	
Estimated number of days required for fieldwork:	
Addressee of the Report:	
Submission Deadline (including draft and final reports to local agency management):	
Submission Logistics:	
Any special requests to be considered during the engagement:	
Cash Transfer Modality utilized by the IP:	

Annex 2 – Example ISRS 4400 Agreed Upon Procedures Report

Annex 3: ISRS 4400 Agreed-upon procedures Report Template:

REPORT OF FACTUAL FINDINGS

To (those who engaged the auditor)

We have performed the procedures agreed with you and enumerated below with respect to the internal controls of the implementing partner and expenditures related to [insert programme name and number] as at (date), set forth in the accompanying management letter. Our engagement was undertaken in accordance with the International Standard on Related Services (or refer to relevant national standards or practices) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the functioning of internal controls and programme expenditures and are summarized as follows:

1. Obtain documentation describing the IP’s financial management internal controls and report on whether the documentation includes controls related to the following areas of financial management:
 - a. Authorizing expenditures-including FACE forms and requests for direct payment
 - i. expenditures authorized in accordance with IP policies and procedures
 - ii. expenditure included in activity detailed in the Annual Work Plan (AWP) Rolling Work Plan (RWP), Multi-year Work Plan (MWP), or agency equivalent
 - iii. expenditures supported by documentation consistent with the IP policies and procedures and HACT Framework
 - b. Preparation and certification of FACE forms
 - i. ensure competitive bids are obtained for expenditures described in the AWP, RWP or MWP in accordance with agency specific guidelines
 - ii. vendors are consistent with Financial Regulations and Rules (FRR) and agency procurement procedures
 - c. Procurement/Contracting of supplies and services
 - i. procurement of supplies and services is consistent with Financial Regulations and Rules (FRR) and agency procurement procedures, including requirements for competitive procurement
 - ii. supplies and services agree with those required by the AWP, RWP, MWP, or agency equivalent
 - d. Adequacy of the accounting and financial operations and reporting systems
 - i. IP has an accounting manual or guidelines

Appendix 12 – Terms of Reference for Agreed upon Procedures regarding Implementing Partner's Internal Controls (Internal Control Audit) (continued)

- ii. Accounting methodology comply with applicable standards in the IP country of operation
- iii. Segregation of duties exists in the components of the accounting and management departments
- iv. IP maintains a separate accounting record/sub-ledger to record transactions against the cash transfers for the agency
- e. Maintenance and security of accounting records
 - i. IP facilities have security procedures to protect against theft, damage, or loss of data
- f. Safeguarding assets
 - i. IP facilities have security procedures to protect against theft, damage, or loss of data

If the IP does not have internal controls related to the above noted areas document as a finding.

2. Select a sample of control instances during the period in-scope for the attestation engagement amounting to 50 – 70% of total control instances for each control (e.g. for a monthly control, sample selections should be made for 6 – 9 instances during the period). Selections should be made haphazardly. For each sample selection perform the following procedures:
 - a. Obtain relevant supporting documentation to verify that the control occurred as described.
 - b. Verify that the actual date of occurrence was within 2 weeks (14 days business days) of the occurrence (i.e. for a monthly control, the January 31 control occurrence should have occurred within 14 business days of February following month).
3. Obtain a listing of all programme related expenditures during the period in-scope for the attestation engagement and perform the following:
 - a. Haphazardly select a sample of expenditures amounting to 70% of total expenditures. Provide a detailed listing of expenditures selected as samples.
 - b. For each sample selection perform the following procedures:
 - Verify documentation exists to support the expenditure in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures, including transparent selection process for procurement of goods and services
 - Verify activity is in accordance with the AWP, RWP, MWP, or agency equivalent
 - Verify expenditure has been properly reviewed and approved in accordance with Financial Regulations and Rules (FRR) and agency procurement procedures
 - Verify expenditure was properly reflected on certified FACE form submitted to agency
 - Trace the sample transactions into the accounting records and bank statement of the IP

Appendix 12 – Terms of Reference for Agreed upon Procedures regarding Implementing Partner’s Internal Controls (Internal Control Audit) (continued)

- Verify that supporting documents are stamped “PAID from XXX grant” indicating which agency funded the transaction
- Verify submission of related FACE form was timely (within one week) of periodicity of disbursement requirement provided in the HACT framework
- Compare the price paid for goods or services against agreed standard rates (if readily available)

We report our findings below:

- a. With respect to item 1 we found [provide details of findings].
- b. With respect to item 2 we found [provide details of findings].
- c. With respect to item 3 we found [provide details of findings].

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), we do not express any assurance on the functioning of internal controls and programme expenditures as of (date).

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the items specified above and does not extend to any financial statements of the implementing partner, taken as a whole.

Auditor Signature

Date

Address

Appendix 13 – Terms of Reference for Financial Audit

Example Terms of Reference

Financial Audit Report

The following example terms of reference has been compiled utilizing information from the various documents provided by UNDP, UNFPA and other development agencies. This example has been created to provide a document that would standardize the Financial Audit Report with Management Letter requests and provide an example of a document ready to use by agency country offices.

This is an example document meant for discussion purposes only. This is not intended to be directly utilized for use by the UN agencies with third party service providers.

* * * * *

The terms of reference contained in this document have been developed to guide the United Nations (UN) ExCom Agencies (UNDP, UNICEF, UNFPA, WFP) (the Agencies), the auditor and the implementing partners (IP) through the objectives, scope, timeline and deliverables of the requested audit. Refer to IP/project specific information included in **Annex 1**.

Objective of the Audit:

The objective of the audit is to obtain reasonable assurance about whether the financial statements (or agency equivalent) are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and to report on the financial statements, and communicate as required by the International Standards on Auditing, in accordance with the auditor's findings.

Audit Standards:

The audit should be conducted in accordance with International Auditing Standards (ISA) 805, *Special Considerations – Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, or International Organization of Supreme Audit Institutions (INTOSAI).

Scope of the Audit:

The Combined Delivery Report (CDR), or agency equivalent, is prepared by the agency and serves as the official statement of expenditures that will be subject to audit by the auditor (or agency equivalent). The Statement of Assets and Equipment as at period end and Statement of Cash Position (if applicable) are prepared by the IP.

The CDR reports, or agency equivalent, details expenditures of funds received from three disbursement sources for a calendar year (IP, agency, other UN agencies). Note that expenses under the "UN Agencies" expense column in the CDR are outside the scope of this audit. UN agencies are audited under their own audit arrangement, following the UN's 'Single Audit' principle. This scope limitation is not a valid reason for the auditors to issue a modified audit opinion on the CDR as the "UN Agencies" expenses are not in scope of the audit. The auditor should state in the audit report the amount of expenses excluded from the scope of the audit.

Consideration of Internal Controls:

As indicated by ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, paragraph 3:

“The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity’s internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement”

As such, the auditor considers internal control relevant to the project’s preparation of the statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. No expression of an opinion on the effectiveness of the project’s internal controls is necessary.

Deliverables:

Audit Report:

The auditor shall prepare an audit report in accordance with ISA 805 for each of the following, where applicable:

- Expression of an opinion on the CDR, or agency equivalent;
- Expression of an opinion on the Statement of Assets and Equipment as at period end. This statement must include all assets and equipment available as at period end, and not only those purchased in a given period. Where a project does not have any assets or equipment, it will not be necessary to express such an opinion, however, this should be disclosed in the audit report; and
- Where a dedicated project bank account is opened and used solely for the cash transactions of the project, the auditor is required to express an opinion on the Statement of Cash Position where a dedicated bank account for the project has been established and/or project holds pretty cash. Where the project does not hold any cash, this should be disclosed in the audit report.

An audit report template following ISA 805 has been included in **Annex 2**.

Additionally, audit opinions must be either unmodified or modified (i.e. qualified, adverse or disclaimer). Refer to additional details of each type of opinion included in **Annex 3**.

Items to be provided to the auditor in advance of starting fieldwork

At the end of the year agencies will prepare the CDR, or agency equivalent, and submits to the implementing partner for signature. The agency will provide the signed CDR, or agency equivalent, along with the following supporting documentation:

- AWP and any progress reports submitted during the year;

- The FACE forms included in the CDR, or agency equivalent, duly certified as to their accuracy and completeness;
- The Direct Payment requests authorized by the IP and included in the CDR, or agency equivalent; and
- Previous audit reports and other relevant assessments (e.g. micro assessment).

The auditors should review the information received and provide the IP with a document request listing in advance of any site-visits to ensure efficiency.

Qualification of the Auditor:

The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial audit engagements. Relevant ethical requirements ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive.

The auditor should have experience in performing audits under ISA or INTOSAI standards. The auditor should employ staff auditors with recognized professional qualifications and suitable experience with ISA or INTOSAI standards, including experience in undertaking audits of similar size and nature. Curriculum vitae (CV) of all members of the audit team should be provided to the contracting Agency. The CVs should include details on relevant audits carried out by the audit team, including ongoing assignments indicating responsibilities assumed, relevant professional qualifications and experience in undertaking audits of similar size and nature.

Annex 1 – Programme Specific Information:

The following information should be completed by the agency country office prior to submitting to third party service provider.

Implementing Partner Name:	
Programme Name:	
Programme Number:	
Programme Background:	
Programme location (physical):	
Programme web address:	
Programme contact person(s):	
Location of Records:	
Currency records maintained:	
Period of transactions covered by audit:	
Funds received and expenditure incurred during the period under audit:	
Intended Start date of fieldwork:	
Estimated number of days required for fieldwork:	
Addressee of the Audit Report:	
Submission Deadline (including draft and final reports to local agency management):	
Submission Logistics:	
Any special requests to be considered during audit:	
Cash Transfer Modality utilized by the IP:	

Annex 2: ISA 805 Audit Report Template:

Refer to separate files for each of the following report templates, which have been shown as track changes from those provided in the standard:

Annex 2a: Unmodified

Annex 2a – ISA 805 Independent auditor Report

Independent auditor's report

[Appropriate Addressee]

We have audited the accompanying [Insert Financial Statement Name – (Statement of Expenditure – Combined Delivery Report, Statement of Assets and Equipment, or Statement of Cash Position)] (“financial statement”) of the [insert project name] project for the period [insert period covered by audit]. The financial statement has been prepared by [management or the implementing partner] using the basis of accounting described in Note X.

[Management's or Implementing Partners] Responsibility for the Financial Statement

[Management or Implementing Partner] is responsible for the preparation of this financial statement in accordance with the [insert basis of accounting] basis of accounting described in Note X; and for such internal control as [management or implementing partner] determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement of the (Project Name) is prepared, in all material respects, in accordance with [description of special purpose framework] as set out in Note X.

Basis of Accounting

Without modifying our opinion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to [insert agency name or specific intended user(s)]. As a result, the statement may not be suitable for another purpose.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Annex 2b: Modified-Qualified

Annex 2b – ISA 805 Independent Auditor Report Modified – Qualified

Independent Auditor's Report

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying [Insert Financial Statement Name – (Statement of Expenditure – Combined Delivery Report, Statement of Assets and Equipment, or Statement of Cash Position)] (“financial statement”) of the [insert project name] project for the period [insert period covered by audit]. The financial statement has been prepared by [management or the implementing partner] using the basis of accounting described in Note X.

[Management's or Implementing Partner] Responsibility for the Financial Statement

[Management or Implementing partner] is responsible for the preparation of this financial statement in accordance with the [insert basis of accounting] basis of accounting described in Note X; and for such internal control as [management or implementing partner] determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

[Provide details regarding the basis for the qualified opinion]

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statement of the (Project Name) is prepared, in all material respects, in accordance with [*description of special purpose framework*] as set out in Note X..

Basis of Accounting

We draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to [insert agency name or specific intended user(s)]. As a result, the statement may not be suitable for another purpose.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Annex 2c: Modified – Adverse

Annex 2c – ISA 805 Independent Auditor Report Modified – Adverse

Independent Auditor's Report

[Appropriate Addressee]

Report on the Financial Statement

We have audited the accompanying [Insert Financial Statement Name – (Statement of Expenditure – Combined Delivery Report, Statement of Assets and Equipment, or Statement of Cash Position)] (“financial statement”) of the [insert project name] project for the period [insert period covered by audit]. The financial statement has been prepared by [management or the implementing partner] using the basis of accounting described in Note X.

[Management's or Implementing Partner's] Responsibility for the Financial Statement

[Management or Implementing partner] is responsible for the preparation of this financial statement in accordance with the [insert basis of accounting] basis of accounting described in Note X; and for such internal control as [management or implementing partner] determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

[Provide basis for Adverse Opinion]

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the financial statement of the (Project Name) is not prepared in accordance with *[description of special purpose framework]* as set out in Note X.

Basis of Accounting

We draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to *[insert agency name or specific intended user(s)]*. As a result, the statement may not be suitable for another purpose.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Annex 2d: Modified – Disclaimer

Annex 2d – ISA 805 Independent Auditor Report Modified – Disclaimer

Independent Auditor's Report

[Appropriate Addressee]

Report on the Financial Statements

We were engaged to audit the accompanying financial statement of [insert project name], which included [Insert Financial Statement Name – Statement of Expenditure – Combined Delivery Report, Statement of Assets and Equipment, or Statement of Cash Position].

[Management's Implementing Partner's] Responsibility for the Financial Statements

Management or Implementing Partner] is responsible for the preparation of this financial statement in accordance with the [insert basis of accounting] basis of accounting described in Note X; and for such internal control as [management or implementing partner] determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on conducting the audit in accordance with International Standards on Auditing. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

[Provide basis for disclaimer of opinion]

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Annex 3: Definition of Audit Opinions

Unmodified ('Unqualified'):

Per ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraph 16:

The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework

Modified (Qualified, Adverse or Disclaimer):

Per ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 6 –10:

6. The auditor shall modify the opinion in the auditor's report when:
 - (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Types of Modified audit opinions:

Qualified Opinion

7. The auditor shall express a qualified opinion when:
 - (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion

9. The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

10. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

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