**TERMS OF REFERENCE FOR THE AUDIT OF <IMPLEMENTING PARTNER> PROJECT FUNDED BY UNHABITAT**

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# INTRODUCTION

1. UN-Habitat entered into an Agreement of Cooperation (hereinafter referred to as the “Agreement”) on 26 February 2010 with the <Implementing Partner> (hereinafter referred to as “<Implementing Partner acronym>”) to collaborate to implement the <name of project> (hereinafter referred to as the “Project”) within the Programme entitled “<name of programme>; with UN-Habitat providing funds to <Implementing Partner> to the maximum amount of USDXXX (<amount in words>); with a completion date of dd/mm/yy.
2. The present terms of reference (TOR) highlight the requirements for an audit of the Project funded by UN-Habitat under the Agreement with <Implementing Partner>.
3. The auditors will be conducting the audit for the sole use of <Implementing Partner> and UN**-**Habitat. Any change in the terms of reference shall be cleared with <Implementing Partner> and UN-Habitat representatives.

# AUDIT OBJECTIVES

1. The selected audit firm shall conduct an audit of the Project in accordance with International Standards of Auditing (ISA) to determine the regularity of the receipt, custody, expenditure, and the accounting of the funds provided by UN-Habitat to the Project and assess the overall operational and internal control system for management of the project.

# AUDIT SERVICES REQUIRED

1. The auditor shall specifically:
2. Express an opinion on whether the following financial statements presents fairly, in all material respects, the expenditures incurred by the Project as well the cash balances and the assets of the Project:
	1. Statement of Expenses for the period *dd/mm/yyyy* to *dd/mm/yyyy;*
	2. Statement of Cash position reported by the project as at yyyy and yyyy;
	3. Statement of assets and equipment as at dd/mm/yyyy and dd/mm/yyyy;
3. And whether the use of funds provided by UN-Habitat were:
	1. In conformity with the approved project budgets;
	2. For the approved purposes of the project;
	3. In accordance with Agreement of Cooperation terms and conditions; and
	4. Supported by adequate supporting documents.
4. Provide and overall assessment of the internal control systems that are in place for the management of the Project.

# SCOPE OF AUDIT

1. The scope of the audit services required includes the following:
2. The entity that is subject to audit is <Implementing Partner>;

1. The audit will be carried out in accordance with ISA1[[1]](#footnote-1);
2. The audit period is from **dd/mm/*yyyy*** to **dd/mm/*yyyy***;
3. The scope of the audit is limited to the Project expenses, which are defined as including all disbursements made by UN-Habitat as part of the Agreement of Cooperation;
4. The auditor is required to state in the audit report if the audit was not in conformity with any of the above and indicate the alternative standards or procedures followed.
5. The auditor is required to express an opinion as to the financial statements of the Project for the period **dd/mm/*yyyy*** to **dd/mm/*yyyy***.
6. The auditor is required to, as applicable, report in monetary value, the net financial impact of any modified audit opinion (modified opinions can be qualified, adverse, or disclaimer) on the statement of expenses where applicable.
7. The auditor/audit firm is required to submit a draft audit report as per UN-Habitat timelines in yyyy, yyyy, and yyyy and a final signed audit report with signed UN-Habitat statements by as per deadlines provided by UN-Habitat in yyyy, yyyy, and yyyy respectively.

**Note:** Audit opinions must be one of the following: (a) qualified (negative), (b), unqualified (favorable), (c) adverse (negative), or (d) disclaimer (negative). If the audit opinion is other than “unqualified” (favorable) the audit report **must** describe both the nature and amount of the possible effects on the financial statements.

1. The scope of audit services shall cover the overall management of the Project’s implementation, monitoring and supervision. The audit work should include the review of work plans, progress reports, project resources, project budgets, project expenditure, project delivery, recruitment, operational and financial closing of projects (if applicable) and disposal or transfer of assets. To this effect, the scope of the audit shall cover the following areas as they are performed at the level of the project:
	1. *Organization and Staffing:* Assess the organization structure of the projects in terms of its effectiveness and efficiency for the management of projects, taking into account the framework of authorities, workflows, staffing levels and necessary internal controls including the different levels of delegated authority for different operational functions and distribution of project management responsibilities to achieve project goals while ensuring appropriate segregation of duties in general so as to minimize risks.
	2. *Project management*: Assess the management aspects in terms of project approvals, work plans, budget formulation, project resources, monitoring and evaluation of implementation towards achievement of project objectives including constitution and functioning of Project Board, field visits, review meetings and the coordination and consultation mechanisms with the stakeholders, and periodic project progress reporting against planned objectives and work plans; In addition, (i) the areas of coverage of such authorization; (ii) business unit capacity assessment for implementation of project; (iii) Exit strategy and national capacity building; (iv) identifying and recovering costs attributable to implementing the project.
	3. *Human Resources*: Assess timeliness of recruitment of competent personnel for clearly defined tasks and responsibilities through a competitive and transparent process and the continued management of project personnel including review of their performance, and the payment of salaries and allowances in accordance with UN**-**Habitat HR policies. In respect of casual or other staff not subject to UN**-**Habitat HR policies and who are temporarily loaned or seconded from the local authorities for engagement at the field level, control of their assignments and the appropriateness of the salary, allowances and benefits paid;
	4. *Finance:* Assess the adequacy of the accounting and reporting systems fused for the management of project resources; and the adequacy of internal controls for compliance with UN**-**Habitat policies with respect to the safe custody and adequate management of cash, commitment of expenditure against approved budget, disbursement or payments against liabilities and cash advances to field offices, project staff, etc.
	5. *Procurement:* Assess whether goods (supplies, equipment) and services for the project are procured competitively and in a transparent manner in accordance with UN**-**Habitat policies and procedures; and these are of a quality and quantity that are actually required for the projects. The review shall cover the integrity of the entire procurement process from the initial identification of needs, the formulation of specifications, solicitation of bids/tenders/proposals from vendors, evaluation of vendor offers in response to solicitations, the award of contracts, the appropriate assessment of goods or services delivered and payment of received goods or services and monitoring performance of the contractors.
	6. *Asset Management:* Assess whether project assets are adequately recorded, safeguarded, monitored, including periodic physical verification of their use and existence, and controlled to ensure that the assets are adequately used and only for the project purposes. Assets are defined as all items with an acquisition value exceeding 1,000 (such as vehicles and office equipment), or, for attractive items, exceeding $400, the cost of which are charged to the project expenditure or which are received in kind as donations from third parties.
	7. *Cash Management:* Review the safeguarding of all cash (including bank accounts) held separately for the purposes of the project either in the UN**-**Habitat country office or at the project field offices, including cash held as advances or impress in any sub-office or field office.
	8. *Information System:* Assess the efficiency and security of the information systems established and maintained from project funds and their adequacy to meet the management and reporting requirements of the projects.
	9. *General Administration:* These include areas of operations not specifically covered above and for which expenditure are charged to the project covering such areas as: travel of project staff, use and maintenance of project vehicles, shipping services, lease and maintenance of office premises and facilities, communications and records maintenance.
	10. *Following up on previous audits:* Assess the status of implementation of the previous audits’ recommendations done within the last three years.

# DELIVERABLES

1. The deliverables will be an **audit report** which includes (i) an audit opinion, (ii) the audited financial statements and (iii) a management letter.
2. **The Audit opinion:** The audit report should clearly indicate the auditor’s opinion. This would include at least the following:
3. That it is a special purpose and confidential report;
4. The audit standards that were applied (ISAs, or national standards that comply with one of the ISA in all material respects);
5. The period covered by the audit opinion;
6. The amount of expenses audited;
7. The amount of the net financial impact of the modified audit opinion on the financial report, if modified;
8. The reason(s) resulting in the issuance of a modified audit opinion, qualified, adverse or disclaimer opinion (the reason(s) must be also included in the management letter as an audit observation(s);
9. The scope limitation (description and value) where applicable;
10. Expression of an opinion on whether the statement of expenses presents fairly the expense incurred by the Project and that the expenses incurred were:
	1. In conformity with the approved project budgets;
	2. For the approved purposes of the project;
	3. In accordance with Agreement of Cooperation terms and conditions; and
	4. Supported by adequate supporting documents.
11. The audit report should include the following **financial statements**:
	1. The statement of expenses for the period from dd/mm/yyyy to dd/mm/yyyy;
	2. The statement of cash position (cash and bank balances of the project) reported by the projects as at dd/mm/yyyy to dd/mm/yyyy; and
	3. The statement of assets and equipment held by the project as at dd/mm/yyyy.
12. **Management Letter:** The management letter should cover the following topics/issues:
13. An **assessment of the Project's** **internal control system** (*see next paragraph*) with emphasis on the general effectiveness of the internal control system in protecting the assets and resources of the Project.
14. A description of any **specific internal control weaknesses** noted in the financial management of the Project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted should be included.
15. More specifically, the management letter should also include the following:
16. A detail assessment of each audit area that captures the audit issues and recommendations which includes a brief background statement, then describe the **criteria** (The criteria could any of the following: regulations, rules, policies, procedures, generally accepted standards, stated programme objectives, office-defined expectations, best practices, or basically what measures the audit team used in making an evaluation and/or verification); the **condition** (=what is, or the situation that exists); the **cause** or the reason for the difference between the expected and actual conditions; and lastly describe the **consequences** or effect or impact/risk should the issue(s) remain unresolved.
17. The following categories of causes should be used (most are self-explanatory, hence no definition is necessary):
18. Lack of or inadequate corporate policies or procedures;
19. Lack of or inadequate country office policies or procedures;
20. Lack of or inadequate guidance or supervision at country office level;
21. Inadequate oversight by Headquarters;
22. Lack of or insufficient resources (specify: financial, human, or technical resources);
23. Inadequate planning;
24. Inadequate training;
25. Human error;
26. Intentional overriding of internal controls;
27. Inadequate management structure.
28. State the priority of recommendation as High, Medium or Low as follows:

***High*** Action is considered imperative to ensure that UN-Habitat is not exposed to high risks. Failure to take action could result in major financial and reputational damages.

***Medium*** Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

***Low*** Action is considered desirable and should result in enhanced control or better value for money.

1. <Implementing Partner> management comments/response to audit findings and recommendations.
2. Expected completion date: the management should indicate when the audit recommendation(s) will be completed.
3. Auditors’ response: If management agrees with the recommendation(s), then there is no need for an Auditor’s response. When management does not agree with the recommendation(s) and the auditor decides to retain the recommendation, a response should be stated here, elaborating on the reason why the recommendation is considered valid.
4. Optionally, comments as to whether recommendations made in the management letter for the previous audit were implemented and the implementation status.
5. The English language shall be used for all related reports and correspondence.

# AUDITORS’ PROFESSIONAL QUALIFICATIONS

1. The audit shall be led by a Professional Accountants such as Chartered Accountant (CA), Chartered Certified Account (CCA) or Certified Public Account (CPA) or Expert Compatible with at least 7 years of audit experience.
2. The auditor must be completely impartial and independent from all aspects of the management or financial interests in <Implementing Partner>.
3. The auditor should not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of <Implementing Partner>.
4. The auditor should be experienced in applying ISA for the audit. The auditor must employ adequate staff with appropriate professional qualifications and suitable experience with ISA standards, including experience in auditing the accounts of entities comparable in size and complexity to the entity being audited.

# AVAILABLE FACILITIES AND RIGHT OF ACCESSS

1. All financial records belonging to the Project are located at <Implementing Partner> offices. The financial records of the direct payments made by UN-Habitat to the Project are available with UN-Habitat.
2. The auditor would have full and complete access at any time to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts etc.) and all employees of the entity. The auditor has a right of access to banks, consultants, contractors and other persons or firms engaged by the Project.
3. Facilities provided by <Implementing Partner>: Office spacing, including internet access and telephone facilities for official use and activities related to the assignment. The auditor would have full and complete access at any time to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts etc.) and all employees of the entity. The auditor has a right of access to banks, consultants, contractors and other persons or firms engaged by the Project.
4. All other facilities will be provided by the Auditor including transportation to and from the Project site, stationeries, etc.

# CONSULTATIONS WITH CONCERNED PARTIES

1. Prior to the start of audit work the auditor will be required to consult with UN-Habitat and <Implementing Partner> representatives. Further, upon completion of the draft audit report and management letter, the auditor will be required to debrief UN-Habitat representatives on the major audit findings and recommendations as well as to seek their feedback thereon.
2. Any audit-related issue during fieldwork shall be reported to and resolved with <Implementing Partner> and UN-Habitat representatives.
3. The timelines for fieldwork and reporting shall be agreed with <Implementing Partner> and UN-Habitat representatives.

# DURATION OF THE ASSIGNMENT

1. Expected duration of this assignment is 6 weeks from the signing of the contract between the Audit Firm and <Implementing Partner>.
1. International Standards of Auditing (ISA) published by the International Auditing Practices Committee of the

International Federation of Accountants [↑](#footnote-ref-1)