TERMS OF REFERENCE (TOR) FOR PERFORMING AUDITS OF FINANCIAL REPORTS OF PROJECTS THAT ARE GRANT-FUNDED BY THE GERMAN FEDERAL MINISTRY FOR ECONOMIC COOPERATION AND DEVELOPMENT (BMZ)

The following are the Terms of Reference on which The Engaging Party (hereinafter referred to as **"The Beneficiary")** agrees to engage The Contractor (hereinafter referred to as **"The Auditor")** to perform the contractually agreed audit(s) of financial reports of a BMZ grant-funded project with the associated reporting.

The TOR are an integral part of the Audit Contract concluded between The Engaging Party and The Contractor for the purpose of this/these audit/s.

1. PARTIES INVOLVED

The **German Federal Ministry for Economic Cooperation and Development** (**BMZ**) is the major funder of the project whose financial reports are to be audited. It provides 75% of total project funding. The BMZ has commissioned an administrative authority – **Bengo** - to handle the reporting and financial management of its approved projects on its behalf. The funding guidelines underlying this grant are laid down in a grant contract that was concluded between Bengo and Kindernothilfe e.V. (see below). Among other conditions, these guidelines also require audits of project financial reports and corresponding audit reports that comply with the specific requirements set forth in these TOR.

German-based NGO **Kindernothilfe e.V.** (**KNH**) is the direct contractual partner of the BMZ/Bengo for this project. KNH is the partner of The Beneficiary for the realization of the project and for ensuring accountability to the BMZ/Bengo. KNH provides 25% of the project funds and forwards the BMZ funds together with its own funding share to The Beneficiary for the implementation of the project. For this purpose, KNH has concluded a Project Agreement with The Beneficiary. This Project Agreement and its annexes set out the funding guidelines that KNH and The Beneficiary must comply with for implementation and financial accountability. The Project Agreement and its annexes are the key documents of reference for The Auditor in the performance of the audit.

The Beneficiary is the implementing organisation for the project in the project country. It is the final recipient of the grant that was approved by the BMZ and KNH for this project. The Beneficiary is responsible for providing a financial report with an associated voucher list for the project and for ensuring that this financial report and voucher list can be properly reconciled to The Beneficiary's accounting and bookkeeping system and to the underlying accounts and records.

The Auditor is responsible for performing the project audit(s) as specified in these TOR, and for submitting a report of factual findings to The Beneficiary and KNH. The Auditor is a member of the national accounting or auditing association in its country of residence.

2. ENGAGEMENT TYPE AND OBJECTIVE

These TOR describe the requirements for an engagement to perform specific agreed-upon procedures regarding the audit(s) of financial reports of the BMZ/KNH-grant-funded project that is referred to in the **"Contract for Performing audits of project financial reports"** concluded between The Engaging Party and The Auditor. The objective is to verify that the expenditure claimed by The Beneficiary in the financial report has occurred ("reality"), is accurate ("exact") and eligible and to submit to The Beneficiary and KNH a report of factual findings with regard to the procedures performed. Eligibility

means that the funds provided for the project have been spent in accordance with the terms and conditions of the Project Agreement and its associated annexes.

3. SOURCES OF INFORMATION

The following sources of information shall be consulted by The Auditor in the auditing process and are to be made available to the Auditor by The Beneficiary. As available and relevant information sources may vary from project to project, the following list shall be adapted according to the project characteristics and audit requirements:

- Bylaws & Standing rules of The Beneficiary
- Chart of accounts and General Ledger Accounts
- Organizational policies for financial management and internal controls, organizational codes of conduct (e.g. on corruption prevention and case management), HR guidelines and internal regulations, as, for example, for the safeguarding of assets, for travel expenses or per diems.
- The Project Agreement concluded between The Beneficiary and KNH with all associated annexes (project proposal document, project Financing Plan in EUR and local currency, templates for the structure and content of the financial report and the associated voucher list, template for the project inventory list).
- All project-relevant bank statements, bank books and deposit slips, names and functions of authorized signatories
- Check book register / cancelled checks (including voids)
- Handing over and distribution lists
- If applicable, any approved project amendment document with the approved Financing Plan valid at the time of the audit.
- The financial report to be prepared by The Beneficiary for each audit with an associated voucher list.
- All project-relevant information in The Beneficiary's accounting and bookkeeping system and its underlying accounts and records, e.g. all invoices, transfer receipts or other payment documents related to the project expenses.
- Evidence of all project income (from KNH transfers, interest income accrued to the project account, target group contributions and/or income received from third parties for the use of project outputs/services). With regard to transfers received from KNH, such evidence is, in particular, all receipts for project funds credited to The Beneficiary's EUR or local currency bank account, all transfers of project funds from a EUR bank account to a local currency bank account, all information on the exchange rates on the respective dates of funds conversion.
- All project-related contracts (personnel and fee contracts, rental contracts, construction contracts, etc.).
- With regard to project personnel costs: The project staff and salary table on which the approved Financing Plan is based, with information on the number and positions of project staff, their project-attributable share of working hours and their approved salaries, if applicable, approved additional payments, payrolls for the period under review.
- Time sheets for the employees paid partially by the project
- A current inventory list of project assets
- Project vehicle logbooks including insurance & fuel control / maintenance and repair records
- All project-related procurement documents (tenders with order specifications (i. a.), offers received, documented offer selection and order placement).
- To answer questions that cannot be resolved by the consultation of documents, access to the appropriate organizational and/or project staff member(s) for an interview is to be sought.

4. SCOPE OF WORK – PROCEDURES TO BE PERFORMED

Obtaining a sufficient understanding of the project and of the Terms and Conditions of the Project Grant/ Project Agreement including any approved amendments

The Auditor obtains a sufficient understanding of the terms and conditions of the grant management by reviewing the Project Agreement and its annexes and other relevant information (see above), and by inquiry of The Beneficiary. If The Auditor finds that the terms and conditions are not sufficiently clear, The Auditor shall request clarification from the Beneficiary and/or KNH as the direct contractual partner of the BMZ for this project.

Grant Requirements (Compliance) and Audit Procedures

The table below sets out the BMZ's requirements for the individual aspects of project fund management and the audit procedures to be performed. The Auditor shall report the resulting findings and shall classify any detected errors and deficiencies according to the risk and impact that they present for the financial transparency and accountability of project fund management as well as according to their probable cause.

Categorization of Audit Findings by Risk/Impact Severity

Low (all criteria apply)

- The terms and conditions of the Project Agreement and its annexes are mostly complied with.
- The use of funds is documented in a comprehensible manner on the basis of the project and payment documents, vouchers and supporting documents.
- Any errors identified can be easily corrected.
- The whereabouts of transferred project funds and their use for intended project purposes are fully verifiable.

Medium (all criteria apply)

- The terms and conditions of the Project Agreement and its annexes are partially complied with.
- Through corrections and supplementary documentation, the use of funds can be documented in a comprehensible manner on the basis of the project and payment documents, vouchers and supporting documents.
- The weaknesses identified can be remedied quickly and with simple measures.
- The whereabouts of transferred project funds and their use for intended project purposes are fully verifiable.

High (one or more criteria apply)

- The terms and conditions of the Project Agreement and its annexes are considerably disregarded.
- The use of funds is no longer clearly comprehensible.
- Addressing the identified weaknesses requires far-reaching changes to internal policies or comprehensive capacity-building measures aimed at staff qualification or technical equipment.
- The loss of project funds cannot be excluded.

Extremely high (one or more criteria apply)

- The terms and conditions of the Project Agreement and its annexes are repeatedly and/or seriously disregarded.
- The use of funds is not comprehensible.
- Identified weaknesses are multiple and require far-reaching changes to internal policies or comprehensive capacity-building measures aimed at staff qualification or technical equipment.
- A loss of project funds has been substantiated.

Categorization of Audit Findings by their probable Cause

Compliance

- Failure to comply with the terms and conditions of the Project Agreement and its annexes due to grossly negligent financial and administrative mismanagement and intentional acts, including fraud and/or corruption.

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.

No.	Grant Requirements	Prescribed Audit Procedures	Factual Audit Findings	Risk/Impact Severity	Probable Cause
4.1	The Beneficiary's organization-wide and project-related financial management system with all its key functions and internal controls must meet generally accepted financial management & accounting principles. The Beneficiary must have a double-entry bookkeeping system. The accounting software used must allow for a separate presentation of all income and expenditure of each individual project in accordance with the budget lines of its financing plan. Cash and bank balances are to be reconciled on a monthly basis and signed by the head of the finance department.				
		Initial audit: The Auditor makes inquiries with the Beneficiary to get a sufficient understanding of The Beneficiary's financial capacities, policies and accounting structure with regard to issues pertaining to the sound financial management of BMZ funding and compliance with BMZ terms and conditions. Areas to be looked into are, for example, financial policies and internal control procedures with regard to the segregation of duties, the prohibition of conflicts of interest and confidential payments, supervision & regular checks, enacted measures to prevent irregularities, fraud and corruption or verification and management of assets. For subsequent audits: The Auditor inquires of The Beneficiary about any changes in the above-mentioned structures, policies or procedures and examines such changes for their impact on compliance with BMZ funding guidelines. If applicable: The Auditor examines whether recommendations for improvements made in the previous audit report(s) have been implemented by the Beneficiary.	[Factual Audit Findings]	[Risk/Impact Severity]	[Probable Cause]
4.2	The financial report and the associated voucher list are available and complete, comply in structure and content with BMZ requirements and can be properly reconciled to the bookkeeping system and to the underlying accounts and records. In preparation of the financial reports and associated voucher lists, the instructions and templates provided in the Project Agreement and its annexes are respected.				
		The Auditor examines the structure and content of the financial report and voucher list with regard to compliance with BMZ requirements, as laid down in the Project Agreement and its annexes. The Auditor examines whether the financial report and voucher list can be properly reconciled to the bookkeeping system and to the underlying accounts and records. The verified financial report and the associated voucher list must be attached in an annex to each audit report.			

4.3	An officially approved amendment to the grant contract, Project Agreement and attached Financing Plan is required if a) the expenditure for any main budget line is in excess of 30% of planned expenditure, b) if major strategies/activities are changed in the course of the project, c) if the official project duration and the expenditure period have to be extended and d) if the project budget has been increased or reduced with the approval of the BMZ / KNH. All project amendments that have been approved since the initial project approval with their possibly resulting changes in the project's Financing Plan must be properly documented and implemented in the project's accounting and bookkeeping system with its underlying documents.			
	The Auditor examines whether any project amendments have been approved since the initial approval of the project and whether such changes are duly reflected in the corresponding accounting and bookkeeping system and documents. The Auditor describes all officially approved changes that have been made to the project since its initial approval.			
4.4	The Expenditure Coverage Ratio (ECR) represents the total amount of expenditure verified by The Auditor expressed as a percentage of the total amount of expenditure reported by The Beneficiary in the financial report. Each project expenditure must be assigned to one of the following main budget lines, which in turn are divided into project-specific sub-budget lines: 1.1 Investment; 1.2 Operating Expenditure; 1.3 Personnel; 1.5 Studies & Evaluation.			
	The ECR to be verified by the The Auditor is at least 65%. The ECR for each main budget line and sub-budget line in the financial report to be verified by The Auditor is at least 20%. If The Auditor finds ineligible and questionable expenditure, the verification procedures are to be extended. The Auditor ensures a systematic and representative verification. Value should be the principal factor used by the Auditor to select expenditure items or classes of expenditure items for verification. The Auditor may apply statistical sampling techniques in the verification of the expenditure according to the different main and sub-budget lines of the financial report. The Auditor explains in the audit report for which main or sub-budget lines of the financial report/Financing Plan sampling has been applied, the method used in sample selection, the results obtained and whether the chosen sample can, in the Auditor's opinion, be seen as representative with regard to the distribution of total expenditure.			

4.5	**The Beneficiary has to comply with generally accepted accounting and record keeping principles.** **Project funds must be used economically and exclusively for the intended project purpose, i.e. in line with the objectives and activities described in the project document.** **All payment records must be complete and correct. Each payment must be supported by proof of payment (e.g. invoices, transfer receipts or cash receipts). For each individual payment, these payment receipts must contain information about the payee, the payment date, the payment amount and the purpose of payment. Each payment receipt must be clearly and unambiguously assigned to the project by stamping it with the project number and / or the project title. Furthermore, the number of the main or sub-budget line under which the respective payment is accounted must be noted on each payment receipt.**			
	The Auditor examines whether The Beneficiary has complied with the following principles for accounting and record keeping: • The accounts kept by The Beneficiary for the implementation of the project are accurate and up-to-date; • Recorded project expenditure has been signed off in accordance with the formal authorisation levels and in respect of the four-eyes principle; • The accounts and expenditure relating to the project are easily identifiable and verifiable. Each expenditure is properly documented. In particular: o Expenditure is identifiable, verifiable and recorded in the accounting records of The Beneficiary; o Payment slips and supporting payment documents carry all required information. The Auditor verifies, for each expenditure item selected under the ECR the Beneficiary's respect of the eligibility criteria set out below: *(1) Costs actually incurred* The Auditor verifies that the expenditure for a selected item was actually incurred by and pertains to The Beneficiary and the project under review. For this purpose, The Auditor examines supporting documents (e.g. invoices, contracts) and proofs of payment. The Auditor also examines proof of work done, goods received or services rendered and verifies the existence of assets where applicable. *(2) Budgeted for* The Auditor verifies that the expenditure for a selected item was indicated in the project budget. *(3) Necessary*			

	The Auditor verifies whether it is plausible that the expenditure for a selected item was necessary for the implementation of the project and that it had to be incurred for the contracted activities of the project by examining the nature of the expenditure with supporting documents. *(4) Recorded* The Auditor verifies that expenditure for a selected item is recorded in The Beneficiary's accounting system and was recorded in accordance with the applicable accounting principles of the country where The Beneficiary is established and The Beneficiary's usual cost accounting practices. *(5) Justified* The Auditor verifies that expenditure for a selected item is substantiated by evidence and notably the supporting documents. Supporting evidence ● must be available in documentary form, whether paper, electronic or other medium (e.g. a written record of a meeting is more reliable than an oral presentation of the matters discussed); ● must be available in the form of original documents rather than photocopies. ● should preferably be obtained from independent sources outside the entity (an original suppliers' invoice or contract is more reliable than an internally approved receipt note); ● which is generated internally is more reliable if it has been subject to control and approval. *(6) truly valued* The Auditor verifies that the monetary value of a selected expenditure item agrees with underlying documents (e.g. invoices, salary statements) and that correct exchange rates are used where applicable. *(7) correctly classified* The Auditor examines the nature of the expenditure for a selected item and verifies that the expenditure item has been classified under the correct (sub)budget line of the financial report. <u>Please note :</u> If The Auditor finds any payments whose related supporting documents are not stamped or otherwise clearly and unambiguously assigned to the project as indicated above, these payment are to be declared ineligible.			

4.6	**The Beneficiary has to keep a separate bank account in local currency for the project. To this account all project income is to be credited and from this account all project expenditure is to be made. If funds from BMZ/KNH are received on an account denominated in a currency other than the local currency (i.e. in EUR), the total amount of the funds received is to be transferred immediately to the project's local currency account.**			
	The Auditor consults the relevant bank documents to examine whether all requirements for the project bank account described are being met. The Auditor describes the procedures used by The Beneficiary to convert EUR amounts into the local currency and to determine the local currency amount of received income.			
4.7	**Receipt of all funds in EUR and their transfers to the local currency bank account are to be documented in the form of bank statements showing the individual dates of receipt on each bank account and the amounts in EUR and in local currency received.** **Any income from interest accrued on the project bank account is to be documented and reported.** **Any financial contribution from the target group or third parties in cash or as deposit to the projects bank account is to be documented and reported.**			
	KNH Fund Transfers: The Auditor examines The Beneficiary's records of bank transactions to determine the dates of receipt of KNH transfers, the EUR-amounts received and their respective amounts in local currency after conversion. All income received by the project in the reporting period through KNH transfers has to be listed with the respective dates of receipt, the amounts received in EUR and the corresponding amounts in local currency. Upon request, KNH provides The Auditor with a complete list of payments that were made to The Beneficiary in the reporting year. The Auditor examines whether any interest income has accrued to the project account in the reporting period. If interest has been accrued on the project account, then the interest amount accrued must be listed as additional income for the project. The Auditor further examines whether any project-attributable financial contributions from target groups and/or third parties have been received in the reporting period and whether such contributions were properly recorded. Any financial contribution made to the project by the target group and/or third parties is to be documented in the audit report with information about the payer(s), the purpose(s) of payment, the payment amount(s) and the payment date(s).			
4.8	**Verification of the Eligibility of Per Diem Payments**			

	The auditor checks whether and, if applicable, to which group of persons per diems are/were paid under the project and whether the required conditions agreed with KNH have been met. If per diems for travel, accommodation and meals are paid to a) the beneficiary's administrative staff. b) project staff and/or c) representatives of government agencies or other state institutions, this may only be done on the basis of amounts and approval and disbursement procedures agreed with KNH (see Project Agreement). Any changes, such as changes in the amounts or in the approval and disbursement procedures related to per diems, must be communicated to KNH without delay. All per diem payments to administrative and project staff and/or representatives of ministries or other government institutions must be transparently recorded in the project voucher list (with information on the name/position of the recipient, the purpose of the payment or the number of days or meals paid, etc).			
4.9	Verification of the proper Handling and Documentation of Collective Vouchers			
	The auditor examines whether individual payments have been combined in the form of collective vouchers. If this is the case, s/he shall check whether the following provisions have been complied with: The grouping of individual payments in collective vouchers is only permissible if similar individual payments that fall under the same budget line are grouped together (e.g. when paying travel expenses to participants of workshops/training courses). The amount of individual payments in a collective voucher may not exceed the equivalent of €50 in local currency. Each payment with a local equivalent of more than € 50 must be recorded in a separate voucher or entry in the voucher list. All individual payments combined in a collective voucher must be carefully documented, e.g. in a table containing the names of the individual payees, the amount received in each case and the receipt of the payment confirmed by signature. In addition, information on the purpose of the payment (e.g. the topic of the workshop/training as well as date of the workshop/training and payment) must be included. This documentation must be marked with the voucher number of the corresponding entry in the project's voucher list and kept together with the project's financial documents.			
4.10	Expenditure for salaries and ancillary salary costs (e.g. social security contributions or severance payments) must correspond to the budgeted amounts in the staff & salary table, which was the basis of calculation for the “Personnel” budget line of the approved project Financing Plan. The salary levels for the respective staff positions must be customary for the project country. All statutory duties, such as taxes or social security contributions, must be paid as required by law.			

	For each audit period, The Beneficiary prepares a list of project staff with their positions and work share in the project, the salaries received in the period under review and all ancillary salary costs paid (staff & salary list for project audits).			
	The Auditor examines the employment contracts of the project employees for correctness and completeness and for compliance with the initial staff & salary list that was the basis for calculation of approved personnel costs. Upon verification, the list it to be attached to the audit report in an annex. Furthermore, The Auditor verifies the list of project employees, their positions, work shares and salaries that was prepared by The Beneficiary for the period under review against the staff & salary list on which the calculation of the approved personnel costs was based as well as with the monthly payroll of The Beneficiary and with the financial information of the financial report and the accounting system. The Auditor furthermore examines whether salary levels for the respective staff positions are customary for the project country and reports the findings. The Auditor furthermore examines whether any ancillary payments, such as taxes and social benefits have been paid as required by law.			
4.11	The term "in-kind contribution" refers to any non-cash contribution given to a project that has a monetary value, but for which the project is not being charged. It can be seen as a gift/ donation in kind given to the project. The Beneficiary may not declare in the accounting system or in the financial report any costs or expenses for goods or services received free of charge.			
	The auditor examines whether the project received any contributions free of charge in the form of goods or services in the reporting period and whether any costs /expenditure were declared for such contributions. Such costs / expenses are to be assessed as ineligible project expenses.			
4.12	Amounts for depreciation to offset the reduction in value of assets may not be claimed in the project's financial reports and voucher lists.			
	The auditor examines whether the voucher list and/or the financial report contain amounts for offsetting depreciation. Such amounts are to be assessed as ineligible project expenses.			
4.13	Payments made before receipt of goods and services may only be agreed or effected if this procedure is justified by special circumstances. The reasons and any related			

	information for such payments must be indicated in respective payment documentation. Any advance payment on wages and salaries to organizational and project staff from project funds is strictly prohibited.			
	The Auditor examines whether any advance payments for the purchase of goods and services or in the form of advanced salary or wage payments for organizational and project staff were made in the period under review. In the case of goods and services The Auditor examines whether these advance payments were necessary and unavoidable in view of special circumstances in the project country.			
4.14	Any payment made before the official start date of the project or after its official end date is generally ineligible unless it is justified by special circumstances.			
	The Auditor verifies that the expenditure for a selected item was incurred during the officially approved implementation period of the project. Any payments made outside of the official project period must be listed separately in the audit report in order to allow the BMZ and KNH an examination of their eligibility.			
4.15	The Beneficiary may exceed planned expenditure in the main budget lines in the Financing Plan by up to 30% to the debit of other budget lines, if the attainment of the project objectives makes this necessary. Increases of more than 30% and all changes of quantities require the prior approval of BMZ/KNH in the form of an officially approved project amendment. For all deviations of the actual expenditure from the budgeted cost estimates – in the form of spending overruns and in main budget lines or sub-budget lines - an explanation and justification is required.			
	The Auditor reports on expenditure incurred in the reporting year and adds the expenditure amounts per budget line to the "Cumulated Expenditure before the current report" in a column "Cumulated expenditure since project start" [see reporting format in section “reporting requirements”]. The Auditor compares total expenditure per budget line with the budgeted amounts in the most recently approved Financing Plan in order to determine the deviations from the planning in %. For all main budget lines and sub-budget lines for which the actual expenditure exceeds the planning amounts by more than 30%, The Auditor obtains detailed information from The Beneficiary about the reasons for such overspending and lists all relevant deviations with their causes in the appropriate section of the report (5.2.4).			

4.16 Procurement regulations according to BMZ guidelines:

Contract/Order value	Procedure to follow
≤ € 500	Purchase of goods and services must be made in accordance with the principles of efficiency and economy. No documentation of market/ price research is required. Regular changes must be made between the contracted service providers and suppliers.
>€ 500* - ≤ € 25,000*	Direct awarding of procurement orders/contracts for goods and services on the basis of a transparent and documented market/price research (through e.g. telephone enquiries, internet research and print-outs, telephone memos etc.). Offers must be obtained from several suppliers/service providers; the minimum number of offers to be received and documented is three. The general rule is: when awarding contracts, as much competition should be created as is possible given the nature of the business or the particular circumstances.
> € 25,000* - ≤ € 100,000*	Public call for tenders or restricted call for tenders with competitive tendering to be ensured. If formal procurement procedures are customary in the project country (in particular for construction contracts and larger supply contracts) these should, as far as it is reasonable, be complied with even if their application is not compulsory for NGOs. Otherwise, orders for goods and services can also be awarded directly on the basis of a solicitation and submission of at least three written offers and a thorough documentation of the procurement process. The principles of efficiency and economy must be observed. The general rule is: when awarding contracts, as much competition should be created as is possible given the nature of the business or the particular circumstances.

*For all purchases or service contracts exceeding an amount of 500 EUR, the procurement process has to be documented in writing. This includes providing information on the reason for the purchase/order and making the decision criteria transparent. This documentation must be stored along with the documentation of the preceding market/ price research and all obtained quotations.

The documentation obligation also applies in cases where it is not possible for The Beneficiary to observe the procurement procedure in full. In such cases the Beneficiary undertakes to inform KNH prior before signing a contract about the reasons for a deviation from the procedures listed above.

	The Auditor uses the exchange rate receipts from the funds transfers to determine an appropriate exchange rate from Euros to the local currency. The Auditor uses this exchange rate to determine the local currency equivalents of the amounts listed in the above table. The Auditor states the applicable exchange rate and lists all procurements made in the year under review with a local currency equivalent of > 1,000 EUR and reports on whether the procurement guidelines, including documentation have been complied with. The Auditor hereby takes into account the following risk indicators: a) inconsistencies in the dates of the documents or illogical sequence of dates; b) unusual similarities in offers of candidates participating in the same tender; c) inconsistencies in the selection and award decision process; d) same tenderer (or group of tenderers) win an unusual proportion of bids; e) a tenderer is frequently awarded contracts for different types of goods or services; f) winning tenderer invoices additional goods not foreseen in the offer; g) details on the invoice do not accord with tender details for the good.			
4.17	The appropriate and economic use of the project equipment must be ensured. This requirement applies among other things also to the use of project vehicles and/or motorcycles. If vehicle/transport costs are charged to the BMZ project the following documentation is to be provided in form of a log book that is to be kept by The Beneficiary for each means of transport employed for project purposes. Required information: • the mileage made each day with an indication of the trips made and their purpose and the names of the driver (and passenger(s), if applicable), • the fuel consumption (with indication of the dates of refueling and the quantities of liters purchased), • the consumption of other kinds of consumables (e.g. tires, filters, lubricants etc.) On fuel receipts and in invoices for maintenance or repair work for project vehicles or motorcycles, information on the vehicle's/motorcycle's brand and registration/licence plate number are to be included to allow an easy allocation of the payment documents to the project's vehicle fleet.			
	The Auditor performs an examination of the project vehicle(s) log book(s) and checks for the completeness of entries, the reasonableness of indicated trips and their purposes and the reasonableness of the vehicle(s)'s actual fuel consumption and its consumption of other consumables (e.g. tyres, filters, lubricants…). The Auditor furthermore verifies whether all payment vouchers related to maintenance, repairs or the purchase of fuel, lubricants, spare parts carry information on the licence plate/registration. The Auditor checks whether the license plate/registration corresponds to a means of transport from the project's fleet.			

4.18	The Beneficiary must ensure that the project assets are handled and stored properly and securely. The Beneficiary shall draw up and submit an inventory of all items procured with project funds, the manufacturing or purchasing value of which exceed the local currency equivalent of 800 EUR (exclusive of VAT). The format and content of this inventory must comply with the requirements of the corresponding appendix to the Project Agreement. If for special reasons, the federal government is or becomes the owner of such items this must be clearly indicated in the inventory.			
	The Auditor examines whether internal organizational policies are in place to ensure the proper and secure management, storage and documentation of project assets. The Auditor carries out random checks to ascertain the whereabouts of purchased project goods. Furthermore, the Auditor examines whether the inventory list created by The Beneficiary complies with the BMZ requirements and is in accordance with the template in the annex to the Project Agreement. The Auditor reports which inventory items were chosen as samples to verify the project inventory and its management, storage and documentation against BMZ guidelines. An inventory list which is to be updated annually by The Beneficiary in accordance with BMZ specifications is to be attached to the audit report.			
All project-applicable BMZ requirements have to be complied with. At the appropriate position of the audit report (see 5.2.6), The Auditor issues a final, comprehensive opinion on whether all project-applicable BMZ requirements have been complied with. All material findings resulting from the audit process shall be documented with their potential impacts (see point 5.2.5 of the audit report). The Auditor shall state all immaterial audit findings in a Management Letter. In the Management Letter, The Auditor shall also make recommendations for improvements. The Auditor shall obtain a statement from the management of The Beneficiary on the findings and recommendations in the Management Letter (i.e. a Management Response) and attach both documents as a required addition to the audit report.				

5. REQUIRED REPORT STRUCTURE

5.1 INTRODUCTION

5.1.1 Information about Report Recipients and Report Usage

5.1.2 Statement of Audit Objective

Proposed Wording: Our engagement covered the audit of the financial reports of project *<Project Title / Project no>* for the period of *<Expenditure Period under Review>.* The objective of this audit was for us to carry out certain procedures to which we have agreed and to submit to you a report of factual findings with regard to the procedures performed.

The scope of our engagement is set out in the document "TERMS OF REFERENCE (TOR) FOR AUDITS OF PROJECTS THAT ARE GRANT-FUNDED BY THE GERMAN FEDERAL MINISTRY FOR ECONOMIC COOPERATION AND DEVELOPMENT (BMZ) that was provided to us by *<Name of The Beneficiary>*In accordance with these TOR, we performed certain agreed procedures under the BMZ's terms and conditions for grant-funded projects.

5.1.3 Brief Description of the project to be audited

5.1.4 Standards & Ethics

5.2 MAIN PART

5.2.1 List of project documents and other sources of information consulted

5.2.2 Detailed presentation of the audit procedures performed and their findings (according to the specifications under point 4 for the scope of work and the procedures to be carried out and the presentation of the results.

If any of the four risk/impact classes (low, medium, high, extremely high) apply to the results of an individual audit procedure, the appropriate classification shall be made and a probable cause for the identified deficiency shall be provided. This can be done using the table presented under 4. or in another appropriate format.

5.2.3 Quantitative Statement of Application of Funds in accordance with the following tables:

Statement of Application of Funds
BMZ Project Number < *Project No*>
For the Period of *<Expenditure Period under Review>*.

A	EXPENDITURE	Appropriation according to Financing Plan of .....[date]		Actual Project Expenditure			Deviation	
		local currency	EUR	Actual expenditure for	Cumulated expenditure before	Cumulated expenditure (since	*In local currency*	in %

				reporting period *local currency*	current report *local currency*	project start) *local currency*		
		(a)	(b)	(c)	(d)	(e) = (c) + (d)	(f) = (a) – (e)	(g) = (e)/(a)* 100
1	**For investment**							
1.1								
1.2								
1.3								
1.4								
…								
2	For Operating Expenditure							
2.2								
2.3								
2.4								
…								
3	For Personnel							
3.1								
3.2								
…								
4	For KNH Project Visits[1]							
5	For Studies, Evaluations							
5.1								
5.2								
…								
	Direct Project Costs							
	Reserve fund for unavoidable, unpredictable additional cost 3,5%[2]							
	Sub-Total							

[1] Budget line reserved for KNH – no expenditure may be entered
[2] For budget only – all expenditure must be allocated to the applicable budget line

	KNH Administrative Costs[3]							
	Project Total							

B	INCOME	Budgeted receipts according to Financing Plan of ….[date]		Actual Project Income			Deviation	
		local currency	EUR	actual income for reporting period local currency	cumulated income before current report local currency	cumulated income since project start local currency	Budget – cumulated income	
							Local currency	In %
		(a)	(b)	(c)	(d)	(e) = (c) + (d)	(f) = (a) – (e)	(g) = (e)/(a)* 100
	BMZ grant and financial contribution from KNH							
	Contribution from the Beneficiary, target group and/or other source in developing country							
	Additional income (e.g. from interest, sales revenues)							
	Project Total							

Financial Statement as at

In local currency

Total Receipts
Total expenditure
Balance
Overspending

Required wording: "It is confirmed that no funds were available for the financing of the project other than the receipts detailed above. It is also confirmed that all expenditure was necessary, that funds were utilised efficiently and economically and that the information given conforms with the books and vouchers."

[3] Budget line reserved for KNH – no expenditure may be entered

5.2.4 (If applicable): Presentation of budget line overspending and of explanations and justifications for deviations of at least 30% as compared to the cost estimates in the financing plan (for both main and sub-budget items).

If there hasn't been any major deviation per budget line, this needs to be stated.

5.2.5 (If applicable): Presentation of material findings

Information is material, if omitting, misstating or obscuring it could reasonably be expected to influence the decisions of the BMZ and KNH as project donors with regard to the continuation and further financial support of the project. When filling in this section, the results/classifications/ causes of point 5.2.2 are to be considered.

5.2.6 Final Audit Certificate

The final audit certificate must have the following content (**minimum requirement**), which must be clearly formulated by the auditor and adjusted if necessary:

Required wording: "We hereby certify that we have audited the statement of accounts of <The Beneficiary> in respect of the financing of the project <*Project Titel and Project No*> on the basis of the documents/sources of information listed under 5.2.1. To this end, we have inspected the books and vouchers and report that:

[The auditor is obliged to provide concrete information on the following questions:]

1. To what extent is project income and expenditure properly evidenced in the form of payment vouchers and receipts?

2. To what extent is the expenditure, for which evidence has been supplied, in keeping with the project document and the appointed purpose as set out in the currently valid Financing plan? Are any deviations from the currently valid Financing plan described and explained separately?

3. To what extent is the amount and origin of documented income, which is accounted for as counterpart contributions made by The Beneficiary, the target group and/or other agencies in the project country, correctly presented and explained in accordance with the specifications?

4. To what extent were the terms and conditions of the BMZ as stated in the Project Agreement and its associated attachments observed? Have any additional requirements that are linked to this project grant approval been observed? In which points were the BMZ funding conditions possibly not observed and are the reasons/causes provided for non-compliance in these cases?

5. Special notes: What are the positive or negative peculiarities of the project to be mentioned?

[With the Final Audit Certificate, the Auditor is to draw a clear conclusion regarding The Beneficiary's **overall compliance with the binding terms and conditions of the grant as laid down in the Project Agreement**.]

…… ……

(Place) (Date)

……
(Signature and Stamp)
[Signature can only be done by a duly authorized representative of The Contractor]

5.3 ANNEXES

- Audit TOR
- Financial Report
- Voucher List
- Staff & Salary Table
- Inventory List

5.4 MANAGEMENT LETTER AND MANAGEMENT RESPONSE

Management Letter:

5.4.1 Statement of immaterial audit findings

5.4.2 Recommendations for improving internal controls, project accounting, or financial reporting

5.4.3 Starting with the 2nd project audit: Presentation of the audit findings on the status of the implementation of recommendations from previous reports.

Management Response:

5.4.4 The Beneficiary's Management's response to the statements and recommendations in the Management Letter.