### **TERMS OF REFERENCE**

### **Audit of Project Financial Statements**

### **[Project Name]**

#### **BACKGROUND**

1. The project, [GCF Project/PPF Number, Project Name] was approved on [date] to [objectives of the project] for a total financing of [currency, amount] in the form of [grant/repayable grant/equity]. The [grant/framework] agreement, [title of agreement], signed between [name of DP/AE] and the Green Climate Fund (GCF) on [date] became effective on [date]. The [name] is the National Designated Authority (NDA) and the project will be administered and implemented by the [delivery partner/accredited entity (DP/AE)], [name].
2. The project has [number] components. Component [1] aims to [briefly describe output/activities], Component [2] aims to [briefly describe output/activities], and Component [3] aims to [briefly describe output/activities].
3. [Provide other information that are relevant for the auditor].
4. The [DP/NDA/AE] is seeking the services of an independent external auditor to carry out audits of the project’s financial statements. The auditor will be appointed to conduct audits for the grant from [date of effectiveness] to [grant expiry date].
5. The continued engagement of the auditor is subject to satisfactory performance and the timely submission of audit reports in accordance with the [grant/framework] agreement.

#### **OBJECTIVES**

1. The objectives of the audit of the project financial statements is to enable the auditor to express opinions on (i) whether the project financial statements (including the notes thereto and supplementary statements) present fairly, in all material respects, (or give a true and fair view of) the grant financial position as at each accounting year-end, and its cash flows for the years then ended, in conformity with the accounting standards acceptable to the GCF, (ii) whether the proceeds of the grant were used for the intended purpose, and (iii) whether the project has complied with the covenants stated in the [grant/framework] agreement.

#### **ACCOUNTING STANDARDS**

1. The financial statements will be prepared on a [cash/accrual] basis of accounting in accordance with the [International Financial Reporting Standards, International Public Sector Accounting Standards, or equivalent national accounting standards].

#### **MANAGEMENT RESPONSIBILITY**

1. The [DP/NDA/AE] is responsible for preparing and fairly presenting the project financial statements including adequacy of disclosure, and for maintaining sufficient internal controls to ensure that the financial statements are free from material misstatement, whether due to fraud or error. The [delivery partner/accredited entity] is also responsible for ensuring that the funds were used only for the purposes of the project, for compliance with financial covenants, and for ensuring that effective internal controls including over the procurement process are maintained.
2. The project’s books of accounts provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of the activities. This includes maintenance of adequate accounting records and supporting documentation for transactions, selection and application of accounting policies, and safeguarding of project assets.
3. [Provide specific information on systems and processes for the accounting, recording and preparation of project financial statements that are relevant for the audit].

#### **AUDITING STANDARDS**

1. The auditor will carry out the audit in accordance with [International Standards on Auditing, International Standards of Supreme Audit Institutions, or equivalent national auditing standards].

#### **AUDITOR RESPONSIBILITY**

1. The auditor is responsible for forming and expressing an opinion on the project financial statements in accordance with the auditing standards. As part of the audit process, the auditor may request from the [delivery partner/accredited entity] written confirmation concerning representations made in connection with the audit.
2. In the conduct of the audit, the auditor is expected to:

* Plan and perform the audit to reduce risk to an acceptably low level, including risks of material misstatements in the financial statements whether due to fraud or error,
* Design and perform audit procedures, and evaluate and report the results thereof including any noncompliance with laws and regulations,
* Communicate matters of governance arising from the audit of financial statements,
* Carry out tests to confirm compliance with the [grant/framework] agreement, such as:
  + Grant funds have been used in accordance with the conditions of the [grant/framework] agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided,
  + Goods, works, and services financed have been procured and project expenditures have been incurred in line with the [grant/framework] agreement,
  + Assets and inventories procured from grant funds exist and there is verifiable ownership in accordance with the [grant/framework] agreement,
  + All necessary supporting documents, records, and accounts have been maintained in respect of all project activities,
* Review the activities of the project’s designated account including deposits received, payments made, interest earned, exchange rates used, and reconciliation of period-end balances, and
* Review all semi-annual financial reports submitted to the GCF and assess the methods used to compile the reports, ascertain that the information given in the reports accurately reflect the underlying records, documents and books of accounts, and verify that the information in the reports reconcile with the annual financial statements.

#### **AUDIT SCOPE AND REPORTING**

1. The auditor is required to deliver an audit report in the English language comprising:

##### AUDITOR’S OPINION ON THE FINANCIAL STATEMENTS

An auditor’s opinion providing reasonable assurance over the audited project financial statements, including the notes thereto and supplementary statements.

##### AUDITOR’S opinion on compliance with legal agreement

An auditor’s opinion made in accordance with [ISAE 3000 ‘Assurance Engagements other than Audits or Reviews of Historical Financial Information’, ISSAI 4200 ‘Compliance Audit Related to the Audit of Financial Statements’, or equivalent national standards] providing reasonable assurance that the (i) proceeds of the grant were used only for the purpose of the project[[1]](#footnote-2), and (ii) project was in compliance with the covenants in the [grant/framework] agreement[[2]](#footnote-3).

##### Audited Project Financial Statements

Consolidated (all sources of funds) financial statements with comparative presentation:

###### Under the cash-basis of accounting

* Statement of Cash Receipts and Payments
* Statement of Comparison of Budget and Actual Amounts
* Supplementary Schedules
  + Statement of Bank Account Reconciliation / Certificate of Cash Position
  + Summary Statement of Expenditures
* Notes to the Financial Statements

###### Under the accrual-basis of accounting

* Statement of Financial Position
* Statement of Financial Performance
* Statement of Cash Flows
* Statement of Comparison of Budget and Actual Amounts
* Supplementary Schedules
  + Statement of Bank Account Reconciliation / Certificate of Cash Position
  + Summary Statement of Expenditures
* Notes to the Financial Statements

##### Management Letter

A management letter providing the auditor’s observations and findings on accounting records, systems and internal controls that were examined during audit, including:

* Weaknesses and issues in accounting and internal control systems, including irregularities in the use of grant funds, ineligibility of expenditures, and procurement-related weaknesses and issues.
* Auditor’s assessment of the causes, and recommendations to improve or rectify the identified weaknesses and issues.
* [DP/NDA/AE]’s responses to the weaknesses and issues including explanations of the causes, proposed action plan to address the concerns, and the timeline for completion.
* Status of weaknesses and issues identified and reported in prior periods.
* Any continuing or persistent issues and weaknesses, and follow-up actions taken.
* Any matters the auditor considers pertinent or significant as to impact implementation.

1. The audit shall be for each of the following periods:

* From [date of effectiveness] to [year-end]
* For the period ending [year-end]
* For the period ending [year-end]
* For the period ending [grant expiry date]

1. All audit reports shall be submitted to [DP/NDA/AE] on or before [date] and be forwarded to the GCF no later than [number of months specified in the grant/framework agreement] after the end of such period, pursuant to the [grant/framework] agreement.

#### **AUDITOR QUALIFICATIONS**

1. The auditor must satisfy the following minimum requirements:

* A legal entity in [country] with business license granted by appropriate authority.
* A member of a professional body affiliated with the International Federation of Accountants or the International Organization of Supreme Audit Institutions.
* Have adequate relevant professional and educational qualifications, or able to provide audit staff with adequate qualifications, experience, and competence.
* Technically competent and able to conduct audit in line with the auditing standards.
* Objective and independent from the project, its staff, and activities, and from all aspects of management or financial interests of the [DP/NDA/AE].
* Possesses proven track record in financial audit of public sector projects, or audits of similar nature, type, and complexity, or donor-funded projects.

#### **OTHER MATTERS**

1. The auditor is entitled to unlimited access to all legal documents, correspondences, project preparation and supervision reports, reports of reviews and investigations, financial management assessment reports, and any other information and explanations associated with the project and considered necessary to facilitate the audit. The auditor may also obtain written confirmation of amounts disbursed from the GCF.
2. The auditor is encouraged to meet with the [NDA] and [DP/AE] to discuss audit-related matters including inputs to the audit plan. If requested, the GCF will also provide necessary information.
3. At conclusion of audit, the auditor will hold a closing meeting with the [NDA] and [DP/AE] to obtain the [DP/NDA/AE]’s comments on the accuracy and completeness of facts and conclusions, including whether or not [DP/NDA/AE] concur with the audit findings. The closing meeting will be part of audit workpapers.

1. This includes assurance that activities were carried out in conformity with sound administrative, technical, financial, business and development practices. [↑](#footnote-ref-2)
2. This refers to compliance with all the terms and conditions of the [grant/framework] agreement, including the Standard Conditions and the Policy on Prohibited Practices. [↑](#footnote-ref-3)