

ANNEX IV

HACT SPECIAL AUDIT TERMS OF REFERENCE

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1. Introduction

- 1.1 UNDP, UNFPA and UNICEF provide cash transfers to implementing partners (“IP(s)”, “Partner(s)”) responsible and accountable for ensuring proper use of agency-provided resources, implementation and management of the intended programme(s) as defined in the work plan or programme document. Three cash transfer modalities are available:
 - a) Direct cash transfers – the agency transfers funds to the IP before the IP incurs obligations and expenditures to support activities agreed in the work plan;
 - b) Direct payments – the agency transfers funds directly to vendors and other third parties for obligations and expenditures incurred by the IP to support activities agreed in the work plan; and
 - c) Reimbursements – the agency transfers funds to the IP for obligations made and expenditures incurred in support of activities agreed in work plan.
- 1.2 According to the UNDG HACT Framework, Special audits are triggered as a result of specific issues and concerns arising during the programme cycle. The special audit may focus on financial information or internal controls, depending on the nature of the potential or identified issues.
- 1.3 This terms of reference (ToR) was developed to guide the United Nations (UN) agency, third party service providers (“Auditor”) and implementing partners through the development of objectives, scope, and deliverables of a HACT special audit.

2. Audit Objectives and Standards

- 2.1 The overall objective of the special audit is for the auditor to carry out procedures of an audit nature to which the auditor and the UN Agency and any appropriate third parties have agreed and to report on factual findings.
- 2.2 The audit is conducted in accordance with the International Standard on Related Services (ISRS) 4400 – Engagements to Perform Agreed-upon Procedures Regarding Financial Information.
- 2.3 If the auditor is a supreme audit institution, the audit is conducted in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) ISSAI 4000-4999 General Auditing Guidelines on Compliance Audit.
- 2.4 The auditor provides a report of the factual findings of agreed-upon procedures, no assurance is expressed. The UN Agency(ies) assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor’s work.
- 2.5 The auditor also reports on specific control weaknesses, audit observations and recommendations to address them, and indication of the risks associated with the weaknesses/observations.
- 2.6 Sample format and content of the Special Audit Report is described in these Terms of Reference, and template is included in annexes. 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.

3. Engagement Context

- 3.1. The selection of Auditor is established based on a thorough assessment of qualifications and the ToR, as well as a competitive bidding process in accordance with the UN agencies' procurement and contracting rules and regulations for commercial service providers.
- 3.2. The audit will be performed in the country of operation, at location(s) where the Partner maintains programme documentation, typically at the programme implementation sites or at the location where the programme is being implemented. Each country office or the agency's headquarters will identify a focal person responsible for assigning the Auditor and liaising with the Partner(s) in order to ensure efficient coordination and establish deadlines. Should the location and/or scope of work change, the focal person and the Auditor will determine the requirements, mutually agree on the cost implications, and adjust the payment accordingly.
- 3.3. The Auditor will obtain an understanding of the agreed upon procedure, the programme related to the special audit, work plan or programme document signed by the agency and the Partner and the additional supplementary information to be provided as per Appendix I.

4. Qualification and Team Composition

4.1 Qualifications and Experience

- 4.1.1 By agreeing to these ToR, the Auditor confirms that he/she meets at least one of the following terms:
 - a) The Auditor is a professional accountant (or a firm of professional accountants) that is a member of a national accounting or auditing body or institution, which in turn is a member or associate of the International Federation of Accountants (IFAC).¹
 - b) The Auditor is a member of a national accounting or auditing body or institution that is a recognized regulatory body of professional accountants and Auditors. The Auditor commits him/herself to undertake this engagement in accordance with the IFAC Handbook on International Standards on Auditing and Quality Control, including the Code of Ethics therein.
 - c) The Auditor is registered as a statutory Auditor in the public register of a public oversight body in a third country, and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to Auditors and audit firms based in a third country).
- 4.1.2 The auditor should comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code). Independence is not a requirement for agreed-upon procedures engagements; however, the terms or objectives of an engagement or national standards may require

¹ A list of IFAC members and associates is available at <http://www.ifac.org/about-ifac/membership/members>.

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.

- 4.1.3 In addition, the UN Agency(ies) will seek feedback from country offices on the performance and the quality of the audit field work and audit results provided by the assigned auditors in their respective areas and assessments based on Key Performance Indicators (in a format designed by the agencies such as reviews and sample testing, post-audit client satisfaction, etc.).

4.2 Team Composition

- 4.2.1 The composition of the audit team shall be such that the Auditor is able to comply with the International Standards on Auditing. A mixture of audit team members with different categories of Auditors and variable seniority is required for this assignment. This should include a highly qualified team leader(s), expert(s), and assistant(s). The number of members will vary according to the agreed upon procedures.
- 4.2.2 The team will be led by a duly certified professional auditor, such as a Chartered Accountant (CA), Chartered Certified Accountant (CCA), Certified Public Accountant (CPA), Certified Auditor (CA) or Certified Fraud Examiner (CFE). The team should also be experienced in applying the *International Standards on Auditing*. The Auditor must employ an adequate number of staff with appropriate professional qualifications and suitable experience with ISA, including experience in auditing of entities comparable in size and complexity to the entity being audited.

5. Documents to be provided to the Auditor

- 5.1 In connection with the audit assignment, the UN agency(ies) and the Implementing Partner will provide to the Auditor access to all information of the UN agency(ies) and the Partner that is relevant to the audit in advance of the engagement (see **Annex I**), such as:
- a) Programme specific information
 - b) The Implementing Partner Agreement(s) and respective Work Plan(s) or Programme Document(s) for the audited period;
 - c) Statement of expenditures, CDR or its equivalent, as defined by the UN agency specific guidelines;
 - d) Financial Authorization and Certificate of Expenditures (FACE) forms included in the statement of expenses, CDR or its equivalent, duly certified as to their accuracy and completeness;
 - e) The HACT micro assessment for the audited implementing partner;
 - f) Previous audit and spot check reports;
 - g) Statement of assets and equipment (if necessary and as defined by UN agency specific guidelines);
 - h) Statement of cash position / operating fund account (if necessary and as defined by UN agency specific guidelines);
 - i) Statement of inventory (if necessary and as defined by UN agency specific guidelines);

- j) Direct payment requests authorized by the implementing partner and included in the statement of expenses (i.e., CDR or its equivalent) if applicable;
- k) List of disbursements made by the UN agency (if applicable) as part of support services provided to the implementing partners;
- l) For UNFPA, the advances paid by UNFPA through the OFA and the closing OFA balance in Atlas;
- m) Any other relevant reports.
- n) Additional information that the Auditor may request from the UN agency and the Partner for the purpose of the audit;
- o) Unrestricted access to persons engaged by the Partner from whom the Auditor determines it is necessary to obtain audit evidence.

6. Limitations

- 6.1 The Auditor will notify the UN Agency of any attempt by the Partner to restrict the scope of the audit, or any lack of co-operation on the part of the Partner. If, after accepting the engagement, the Auditor becomes aware that the management of the Partner subject to audit has imposed a limitation on the scope of the audit, the Auditor shall request that management remove the limitation. The Auditor will notify UN Agency concerned as soon as possible of any limitations in the scope of work he/she may find prior to or during the audit. The Auditor will consult UN Agency on what action may be required, whether or how the audit can be continued, and whether changes in the audit scope or the timetable are acceptable.

7. Audit Procedures

- 7.1 The UN Agency should ensure with representatives of the audit team that there is a clear understanding regarding the agreed procedures and the conditions of the Special Audit.
- 7.2.1 The UN Agency and the Auditor should agree on:
- a) Purpose of the engagement;
 - b) Identification of the financial information or internal control(s) to which the agreed-upon procedures will be applied;
 - c) Nature, timing and extent of the specific procedures to be applied;
 - d) Anticipated form of the report of factual findings;
 - e) Limitations on distribution of the report of factual findings.
- 7.3 The auditor should carry out the procedures agreed upon and use the evidence obtained as the basis for the report of factual findings.

8. Audit Report

- 8.1 The Auditor will submit an audit report in accordance with the ISA by using the suggested audit report template included in **Annex II**.
- 8.2 The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed.
- 8.3 At a minimum, the audit report will include:

- a) Title;
- b) UN Agency engaging the Auditor to perform the agreed upon procedures;
- c) Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied;
- d) A statement that the procedures performed were those agreed upon with the UN Agency;
- e) A statement that the engagement was performed in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements;
- f) When relevant a statement that the auditor is not independent of the entity;
- g) Identification of the purpose for which the agreed-upon procedures were performed;
- h) A listing of the specific procedures performed;
- i) A description of the auditor's factual findings including sufficient details of errors and exceptions found;
- j) Statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;
- k) A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported;
- l) A statement that the report is restricted to those parties that have been agreed to the procedures to be performed;
- m) A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole;
- n) Date of the report;
- o) Auditor's address; and
- p) Auditor's signature.

9. Other Requirements

9.1 Reporting – Language

9.1.1 The Audit Report must be presented in either English, French or Spanish, or as agreed between the UN Agency and the Auditor. Reports prepared in language other than one of the UN working languages (English, French or Spanish) will need to be translated by the Auditor into one of the UN working languages upon request. Translation should not delay the delivery of the documents within the timeframe agreed. Translation costs can be included in the financial proposal.

9.2 Timetable for Submission of Draft and Final Audit Reports

9.2.1 The timeline for the milestone delivery will be stipulated in the Statement of Work. The Auditor will respect the procedures and the timetable for the conduct of the field work and submission of the reports (including the draft and final reports). If the timetables for comments are not respected by other parties (i.e. UN agency) and/or the Partner), the Auditor will document such delays in his/her working papers, and report thereon in the audit report.

9.2.2 The audit working papers and related documents shall be available to the UN agency and shall be kept by the Auditor for a minimum period of seven years after the

issuance of reports. They must be made available to the UN agency for review upon request, at any stage during this period.

9.3 Submission Process

- 9.3.1 The Auditor is required to submit the draft report to the UN agency(ies).
- 9.3.2 If specified by the UN Agency(ies), the Auditor is required to submit the draft report to the Partner for the Partner's comments. The Partner must provide its comments, if any, within ten working days of the Auditor's submission.
- 9.3.3 The submission of final deliverables to the UN Agency will be made through direct submission in paper and electronic format.

9.4. Other Observations

- 9.4.1 Cases which indicate fraud or presumptive fraud must be brought to the immediate attention of the UN agency as soon as possible, without waiting for the issuance of the audit report.
- 9.4.2 The Auditor and staff shall maintain confidentiality regarding any information obtained in connection with the audit services undertaken on behalf of the UN agency.

Annex I: Programme Specific Information

The following information should be completed by the UN Agency and provided to the Auditor prior to the start of the engagement.

Implementing partner name	
Implementing partner code or ID in UNICEF, UNDP, UNFPA records	
Implementing partner contact details (contact name, email address and telephone number)	
Programme name	
Programme number/Project Code/ID as per UN records	
Programme location(s)	
Location of records	
Currency of records maintained	
Period covered by the audit	
Funds received from UNICEF/UNDP/UNFPA during the period covered by the audit	
Expenditure incurred/reported to UNICEF/UNDP/UNFPA during the period covered by the audit	
Intended start date of fieldwork	
Submission deadline (including draft and final reports to local agency management)	
Submission logistics	
Any special requests to be considered during engagement	
Cash transfer modality/ies used by the UN agency/ies to the IP	
A listing of the procedures to be performed as agreed upon between the parties.	

Annex II: Suggested Special Audit Report Template

NAME OF THE UNITED NATIONS AGENCY

AGREED UPON PROCEDURES REPORT

Report of Factual Findings in Connection with [Financial Information or Internal Control(s)] on Cash Transfers to

Implementing Partner Name

Country:	Country name
Auditor:	Audit firm name
Period subject to audit:	DD MONTH 20YY to DD MONTH 20YY

REPORT OF FACTUAL FINDINGS

To [UN Agency]

We have performed the procedures agreed with you and enumerated below with respect to *[financial information or internal control(s)]* of *[Implementing Partner name]* *[as at (date) – or for the period (Month, Year) to (Month, Year)]*, set forth in the accompanying *[schedules/appendices]*. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the *[financial information or internal control(s)]* and are summarized as follows:

1. List specific procedures to be performed.
2. ...

We report our findings below:

(a) With respect to item 1 we found *[insert finding]*.

(b) With respect to item 2 we found *[insert finding]*...

(Detail the exceptions)

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 *[financial information or internal contro(s) as of (date) or for the period month year to month year]*.

Had we performed additional procedures or had we performed a HACT audit of the statement of expenditure in accordance with International Standards on Auditing, 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 accounts and items specified above and does not extend to any statement of expenditures of *[Implementing Partner]*, taken as a whole.

AUDITOR

Date:

Address:

