

Terms of Reference for Internal Control Audit

BACKGROUND

Objective of the Agreed-upon Procedures Engagement

The objective of an agreed-upon procedures attest engagement is to engage a third-party service provider to prepare a report of findings based on specific procedures performed on the subject matter. As the service provider 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 service provider and draw their own conclusions from the work. The report is restricted to parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

Background information

Within projects Local Integrated Development (LID), BIRAC Regional Cooperation/First job, and Integrated Local Development (ILD), UNDP BiH has engaged local partners (list provided in Annex 1) as Responsible Partners on the implementation of parts of these projects. This engagement has been carried out in line with the HACT Framework and implies performance of Internal Control Audits in line with the risk rating determined through Micro-Assessment of each of the partners.

DESCRIPTION OF RESPONSIBILITIES

Standards

The attestation engagement should be conducted in accordance with ISRS 4400, *Agreed-upon Procedures Regarding Financial Information*.

Scope of the Attestation Engagement

I. Internal Controls

The agreed-upon procedures are performed to assist the IP in assessing 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. The third-party service provider should agree in writing to perform the procedures enumerated below to assist the IP in its assessment and to report on factual findings.

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. The documentation should cover:
 - (a) Authorization of expenditures, including FACE forms and requests for direct payment. These include:
 - Expenditures authorized in accordance with IP policies and procedures;
 - Expenditure included in activity detailed in the work plan;¹ and

¹ Agency work plans can be annual, multi-year, rolling or joint.

- Expenditures supported by documentation consistent with IP policies and procedures and the HACT framework
- (b) Procurement/contracting of supplies and services. The third-party service provider should detail whether:
- Competitive bids are obtained for expenditures described in the work plan;
 - Vendors consistently implement the IP's rules and procedures and agreements with the agency;
 - Procurement of supplies and services is consistent with the IP's rules and procedures and its agreements with the agency, including requirements for competitive procurement; and
 - Supplies and services agree with those required by the work plan.
- (c) Adequacy of the accounting and financial operations and reporting systems. The third-party service provider should ensure that:
- The IP has an accounting manual or guidelines;
 - The accounting methodology complies with applicable standards in the IP country of operation;
 - Duties are segregated between the components of the accounting and management departments;
 - The IP maintains a separate official accounting record/sub-ledger to record transactions against the cash transfers for the agency; and
 - The IP prepares a monthly bank reconciliation if it maintains a separate bank account for the agency's funds.
- (d) Maintenance and security of accounting records. The third-party service provider should ensure that:
- IP facilities have security procedures to protect against theft, damage or loss of data; and
 - The IP has a document retention policy that conforms with agency requirements.
- (e) Safeguarding assets. The third-party service provider should ensure that 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 for the agreed-upon procedures engagement amounting to 30 to 50 per cent of total control instances for each control (e.g. for a monthly control, sample selections should be made for four to six instances during the period). Selections should be made randomly. 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 31 January control occurrence should have occurred within 14 business days of February).

II. Sample of Expenditures

Obtain a listing of all programme-related expenditures during the period for the agreed-upon procedures engagement and perform the following:

- (a) Randomly select a sample of expenditures amounting to a certain percentage of total expenditures during the period under audit.
- (b) For each sample selection perform the following procedures:
 - Verify that documentation exists to support the expenditure in accordance with the IP's rules and procedures and agreements with the agency, including a transparent selection process for procurement of goods and services.
 - Verify that activity is in accordance with the work plan.
 - Verify that the expenditure has been properly reviewed and approved in accordance with the IP's rules and procedures and agreements with the agency.
 - Verify that the expenditure was properly reflected on the certified FACE form submitted to the agency.
 - Trace the sample transactions into the IP's accounting records and bank statement.
 - Verify that supporting documents are stamped 'PAID from XXX grant', indicating which agency funded the transaction.
 - Verify that submission of the FACE form was consistent with the periodicity-of-disbursement requirement in the HACT framework (two weeks).
 - Compare the price paid for goods or services against agreed standard rates (if readily available).

DELIVERABLES

The third-party service provider prepares a standard agreed-upon procedures report for each Responsible Partner in accordance with the applicable standards, which includes:

- Details of procedures performed and corresponding findings;
- Details explaining that the scope of agreed-upon procedures varies from that of an audit or review; and
- Limitations on the distribution of the report.

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

Contract is expected to commence on 18 June 2018.

Deadline for the submission of final reports 13 July 2018.

QUALIFICATIONS OF THE THIRD-PARTY SERVICE PROVIDER

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 third-party service provider to comply with the independence requirements of the IESBA Code. Where the service provider is not independent, a statement to that effect should be made in the report of factual findings.

The third-party service provider should be experienced in applying ISRS standards. If hiring staff, the service provider should employ staff with recognized professional qualifications and suitable experience with ISRS standards, including experience in reviewing similar entities.

CVs of all members of the assessment team should be provided. They should include details on engagements carried out by the relevant staff, including ongoing assignments indicating responsibilities assumed by them, and their qualifications and experience in undertaking agreed-upon procedures.

United Nations and agency-specific procurement policies (if any) should be used for procurement of third party service providers.

Items to be Provided to the Third-Party Service Provider in Advance

Before the field work begins, the agency provides the third-party service provider with the following documentation:

- Work plan and any progress reports submitted during the year;
- Signed combined delivery report (CDR), or agency equivalent;
- 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).

To ensure efficiency, the third-party service provider should review the information received and provide the IP with a list of requested documents in advance of any site visit(s).

Annex 1
List of Responsible Partners (RPs)

#	Name of Implementing partner (IP) or Responsible Party (RP)	Related Atlas Project no.	Related Atlas Output no.	Project name	Responsible party location/ location of records	Responsible party contact person	RP contact person email	RP contact person telephone	Currency of records	Amount of expenditure incurred (BAM)	Period of transactions covered by attestation engagement	Micro-assessment risk rating	Cash transfer modality
1	IRBRS	00080519	00090158	LID	Banja Luka	Mirko Bosnjak	mirko.bosnjak@irbrs.org	065 630 610	BAM	387,661.90	12/10/2016 - 31/03/2018	Low	Direct Cash Transfer
2	FMRPO	00080519	00090158	LID	Mostar	Visnja Buljan	visnjabuljan@gmail.com	063 313 119	BAM	743,424.41	01/07/2016 - 31/03/2018	Moderate	Direct Payments
3	Srebrenik	00080519	00090158	LID	Srebrenik	Adnan Bijelic	adnanbijelic@hotmail.com	061 671 816	BAM	128,139.34	26/04/2017 - 30/09/2017	Moderate	Direct Cash Transfer
4	Orasje	00080519	00090158	LID	Orasje	Pero Baotic	gospodarstvo@orasje.ba	031 712 322	BAM	167,182.75	24/04/2017 - 30/09/2017	Low	Direct Cash Transfer
5	Foca	00080519	00090158	LID	Foca	Sonja Pavlovic	sonjapav5@gmail.com	066 483 482	BAM	47,500.20	18/04/2017 - 30/09/2017	Low	Direct Cash Transfer
6	Gorazde	00080519	00090158	LID	Gorazde	Asima Djambegovic	asima_dzambegovic@gorazde.ba asimadz@bih.net.ba	038 222 656	BAM	50,000.00	11/04/2017 - 30/09/2017	Low	Direct Cash Transfer
7	Zepce	00080519	00090158	LID	Zepce	Namik Malicbegovic	namik.malicbegovic@tel.net.ba	063 286 290	BAM	50,000.00	11/04/2017 - 30/09/2017	Moderate	Direct Cash Transfer
8	Srebrenica	00091322	00096618	BIRAC/First job	Srebrenica	Cvijetin Maksimovic	privreda@srebrenica.gov.ba	065 948 232	BAM	96,479.96	15/08/2017 - 31/12/2017	Moderate	Direct Cash Transfer
9	Bratunac	00091322	00096618	BIRAC/First job	Bratunac	Vjekoslav Stevanovic	razvoj@teol.net	065 578 001	BAM	44,980.06	15/08/2017 - 31/12/2017	Moderate	Direct Cash Transfer
10	Milici	00091322	00096618	BIRAC/First job	Milici	Marko Savic	markosavic.opmilici@gmail.com	065 168 484	BAM	52,000.00	04/08/2017 - 31/12/2017	Moderate	Direct Cash Transfer
11	RS Agency for SME	00091322	00096618	BIRAC/First job	Banja Luka	Maja Knezevic	maja.knezevic@rars-msp.org	066 714 310	BAM	15,500.00	18/08/2017 - 31/12/2017	Moderate	Direct Cash Transfer
12	Zvornik	00091322	00106097	BIRAC/First job	Zvornik	Milos Tomic	milosjnzvornik@gmail.com	065 716 142	BAM	105,000.00	21/12/2017 - 31/12/2017	Moderate	Direct Payments
13	Vlasenica	00091322	00106097	BIRAC/First job	Vlasenica	Zeljko Damljanovic	zeljkod@opstina-vlasenica.org	065 808 597	BAM	50,000.00	21/12/2017 - 31/12/2017	Moderate	Direct Payments
14	Bosanska Krupa	00093067	00082160	ILDLP	Bosanska Krupa	Esma Hergic	esma_hergic@yahoo.com opcina.bosanskakrupa@bih.net.ba	037 961 460	BAM	141,279.01	13/05/2015 - 15/02/2017	Moderate	Direct Payments

Annex 2. Sample 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) Authorization of expenditures, including FACE forms and requests for direct payment:
 - Expenditures authorized in accordance with IP policies and procedures;
 - Expenditure included in activity detailed in the work plan;²
 - Expenditures supported by documentation consistent with IP policies and procedures and the HACT framework.
 - (b) Procurement/contracting of supplies and services, in terms of ensuring that:
 - Competitive bids are obtained for expenditures described in the work plan;
 - Vendors are consistent with the IP's rules and procedures and agreements with the agency;
 - Procurement of supplies and services is consistent with the IP's rules and procedures and agreements with the agency, including requirements for competitive procurement; and
 - Supplies and services agree with those required by the work plan.
 - (c) Adequacy of the accounting and financial operations and reporting systems, in terms of ensuring that:
 - The IP has an accounting manual or guidelines;
 - The IP's accounting methodology complies with applicable standards in the IP country of operation;
 - Duties are segregated between the components of the accounting and management departments;
 - The IP maintains a separate official accounting record/sub-ledger to record transactions against the cash transfers for the agency; and
 - The IP prepares a monthly bank reconciliation if it maintains a separate bank account for the agency's funds.
 - (d) Maintenance and security of accounting records, in terms of ensuring that:
 - IP facilities have security procedures to protect against theft, damage or loss of data; and
 - The IP has a document retention policy that conforms with agency requirements.

² Agency work Plan (WP) can be annual, multi-year, rolling or joint.

- (e) Safeguarding assets, in terms of ensuring that 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, it should be documented as a finding.

2. Select a sample of control instances during the period under review for the attestation engagement, amounting to 30 to 50 per cent of total control instances for each control (e.g. for a monthly control, sample selections should be made for four to six instances during the period). Selections should be made randomly. 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 31 January control occurrence should have occurred within 14 business days of February).
3. Obtain a listing of all programme-related expenditures during the period under review for the attestation engagement and perform the following:
 - (a) Randomly select a sample of expenditures amounting to a certain percentage of total expenditures during period under review. The percentage is to be determined by each agency relative to its needs and requirements. Provide a detailed listing of expenditures selected as samples.
 - (b) For each sample selection perform the following procedures:
 - Verify that documentation exists to support the expenditure in accordance with the IP's rules and procedures and agreements with the agency, including a transparent selection process for procurement of goods and services.
 - Verify that activity is in accordance with the work plan.
 - Verify that expenditures have been properly reviewed and approved in accordance with the IP's rules and procedures and agreements with the agency.
 - Verify that expenditures were properly reflected on the certified FACE form submitted to the agency.
 - Trace the sample transactions into the IP's accounting records and bank statement.
 - Verify that supporting documents are stamped 'PAID from XXX grant', indicating which agency funded the transaction.
 - Verify that submission of the FACE form was consistent with the periodicity-of-disbursement requirement in the HACT framework (two weeks).
 - 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