

Appendix XII. Terms of Reference for Internal Control Audit

This TOR has been developed to guide United Nations agencies, third party service providers and IPs through the objectives, scope, timeline and deliverables of the requested agreed-upon procedures engagement. (See Annex 1 for programme-specific information)

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.

Standards

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

Scope of the Attestation Engagement

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;¹³ and
 - 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:

¹³ Agency work plans can be annual, multi-year, rolling or joint.

- 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).

Sample of Expenditures

3. 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 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.

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. Programme-specific Information

The following information should be completed by the agency and provided to the third party service provider at the start of the engagement.

Implementing partner name:	
Programme name:	
Programme number:	
Programme background:	
Programme location:	
Programme contact person(s):	
Location of records:	
Currency of records maintained:	
Period of transactions covered by attestation engagement:	
Funds received and expenditure incurred during the period covered:	
Intended start date of fieldwork:	
Estimated number of days required for fieldwork:	
Recipient of the report:	
Submission deadline (including draft and final reports to local agency management):	
Submission logistics:	
Any special requests to be considered during the engagement:	
Cash transfer modality used by the IP:	

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;¹⁴
 - 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.

¹⁴ Agency work Plan (WP) can be annual, multi-year, rolling or joint.

- (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.

- (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