

# **Terms of Reference for an EXTERNAL Audit of Irish Aid Funded Programmes and Projects in the Overseas Offices**

## **1. Introduction**

Irish Aid's audit assurance is gained from a number of areas including, audit reports of national Auditors General, and partners' own audit reports. Each year Irish Aid pays for and initiates the audit of some partners. These terms of reference refer to external audits of Irish Aid funded partners that are commissioned to provide audit assurance to Irish Aid, but are audits of separate independent entities. The audit reports are also used and relied upon by the partner being audited. **All audit reports are addressed to the partner being audited but are also provided to Irish Aid.** The audits should be carried out according to international auditing standards, however these terms of reference include minimum requirements for the audit to provide the audit assurance required by Irish Aid.

Bilateral agreements exist between the Government of Ireland and a number of countries<sup>1</sup> for support to development in those countries. As part of this programme, Irish Aid supports interventions in a number of areas, including governance, education, health, HIV/AIDS, water and sanitation, agriculture, civil society, private sector and rural and community development. The programme is implemented through central or federal government and various levels of local government administration at either regional, provincial or district levels.

Irish Aid support is provided through a number of different aid modalities, including budget support and SWAps. Support is also given via projects that are funded by Irish Aid and/or jointly funded with other donors. Ireland also supports a number of programmes managed by international and national non-governmental organisations (NGOs).

Irish Aid maintains offices at a number of the local government levels and in the capitals of each of the countries. Irish Aid commissions an audit, contracted separately and on an annual basis for a selection of the programmes and projects funded in each of the partner countries to a firm of auditors internationally recognised. The firm should also be a locally registered auditor in the country. These terms of reference apply to each of the audits to be conducted under this arrangement. Irish Aid will appoint an external auditor for three years and a contract will be signed annually based on yearly performances.

## **2. Irish Aid Accounting and Administration Procedures in relation to Partners**

### **2.1 Funding Mechanism**

The Irish Aid programme is the official overseas aid programme of the Irish Government. It is an integral part of the Government of Ireland and is located within the Department of Foreign Affairs and Trade. It is 100% funded by the International Development Vote of the Government of Ireland budget. Irish Aid funds are administered through the Embassy in the capital supported by Irish Aid sub offices at the local government level (representation offices/area based programme offices/provincial offices etc). These sub offices are an integral part of Irish Aid. The flow of funds for grants to development partners from Irish

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<sup>1</sup> The countries are Uganda, Zambia, Tanzania, East Timor, Ethiopia, Mozambique and South Africa

Aid is as follows:

- Programme and project grant payments are made from the Embassy bank account as transfers to programmes and projects.
- In exceptional cases some payments are made from the Embassy bank account for purchases of goods or services for the programmes

## **2.2 Accounting Controls by Irish Aid over Partners**

- Agreements should be in place with all partners including financial procedures, reporting and auditing arrangements.
- According to agreements some (but not all) partners are required to hold separate bank accounts for Irish funds
- Regular progress and financial reporting by the projects to the Embassy
- Project evaluations/reviews
- Embassy accounting staff oversight of partners
- Programme Accountants in countries where there is no internal audit function and Consultant Auditors carry out audits of partners.
- Audit by the Evaluation and Audit Unit
- Regular monitoring by Embassy and sub office staff.

## **2.3 System of Accounting of Partners**

The majority of Irish Aid partners operate on a cash accounting system, or modified cash based accounting system, however some partners operate full cash or accrual accounting.

## **3. Objectives of the Audits**

The objective of the audit of the programme/project financial statements is to enable the auditor to express a professional opinion on the financial statements that the partner is required to prepare. The audit is conducted to allow the Evaluation and Audit Unit Limerick, the Irish Comptroller and Auditor General to rely on the auditor's opinion in forming their own professional opinions on the use of Irish Government funds.

## **4. Scope**

The scope of the audit will include all funds received from Irish Aid by the Partner being audited.

The audit will be carried out in accordance with international standards on auditing, as promulgated by the International Federation of Accountants and will include such tests and auditing procedures as the auditor considers necessary under the circumstances.

Special attention should be paid by the auditor as to whether:

- a) Irish Aid funds have been used in accordance with the conditions of funding agreements,

with due attention to efficiency and economy, and only for the purposes for which funding was provided.

- b) An internal control system is in place to prevent, or detect and correct, errors, misstatements and misappropriations. The control system is appropriate for the type of modality, i.e., direct implementation or sub-granting or both.
- c) Bank accounts maintained for Irish Aid funds (if applicable) have not become overdrawn during the accounting period.
- d) Goods and services have been procured in accordance with the relevant procedures
- e) All necessary supporting documents, records and accounts have been kept in respect of each project with clear linkages to the progress reports presented to the Embassy.
- f) The financial statements have been prepared in accordance with international accounting standards taking into account the partner's system of accounting which may be cash based or modified cash based.
- g) The audit needs also to review arrangement for ensuring value for money is obtained for Irish Aid funds.

The audit should include a rigorous examination of the system of internal controls, including organisation structure, authority levels, staff competence, accounting records and supporting documentation, separation of duties, and monitoring arrangements. Where certain controls are impracticable, appropriate compensating controls should exist. The auditor should also review the internal audit report of the agency to be audited.

The auditor should plan the audit so that there is a reasonable expectation of detecting material misstatements in the accounts resulting from fraud, error or non-compliance with laws and regulations as may be necessary. If the auditor's suspicions are aroused, s/he must inquire into all the circumstances until satisfied. If material irregularities are discovered, they must be reported to the Embassy and to the Evaluation and Audit Unit (Limerick) immediately.

## **5. Financial Statements**

### **5.1 Financial Statements**

The financial statements must be prepared in the Partner's own format from the accounting records maintained at particular projects however, at a minimum this must include:

- a) A Receipts and Payments or an Income and Expenditure Statement (in the partner's currency of operation) showing separately all income received from Irish Aid. The accounts should include expenditure by budget line item, and comparative figures for the preceding year together with and any other information included in the format of the standard financial statements provided by Irish Aid.
- b) Where possible the statement should also include expenditure incurred directly by Irish Aid on behalf of the partner. The payment statement will identify the total amount by organisation of any grant to another organisation/district etc from Irish Aid funding.
- c) Balance sheet as at the year-end (in the partner's currency of operation), including the Irish Aid fund balance remaining. Where Irish Aid funds remaining are mixed with other

source of funds, the accounts will note the fund balance remaining to Irish Aid and make a statement on where this fund balance is held.

d) Notes to the financial statements presenting:

- A brief explanation of the programme/ project objectives.
- Accounting policies.
- Any supplementary financial information or schedules in support of (a), (b) and (c) above including budget/actual comparison schedule,
- Receipts from Irish Aid equivalent Euro and actual local currency with the date of transfer of the funds.

e) The financial statements should be signed by the partner.

## **6. Audit Report**

The audit report is intended for the information of Irish Aid, the audit committee of the Department of Foreign Affairs and Trade of Ireland and for the Irish Comptroller and Auditor General, and for the information of the partner being audited. **The audit report should be addressed to the partner being audited.** The opinion expressed in the audit report will address whether:

- a) The financial statements present a true and fair view of the financial position of the partner audited. In expressing this opinion, the auditor must consider whether proper accounting records have been maintained in each case, and whether the financial statements are in agreement with these records.
- b) Funds provided for the project by Irish Aid have been used in accordance with the relevant agreement and Irish Aid PAEG and IDC approval.
- c) The auditor shall make a statement confirming they have complied with these terms of reference in the introduction to the management letter. In particular, they will confirm that they have complied with each of the points raised under section 4 above.

## **7. Management Letter/ Internal Control Letter**

In addition to the audit report, the auditor will prepare a “Management Letter” **addressed to each partner**, which will:

- a) Give comments and observations on the accounting records, systems, and controls that were examined during the audit;
- b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
- c) Include management comments and observations relating to the recommendations in (b) above.
  - Include management comments from the partners’ programme/project management.
  - The auditors will bring matters to the attention of management as they arise and seek

clarification and/or management's comments during the course of the audit.

- d) Communicate matters that have come to the auditor's attention that might have a significant impact on the implementation of the programme.
- e) Refer to any other matters that the auditor considers relevant.
- f) The management letter must include a review of the issues raised in the previous year's management letter and a status report on progress/follow up covering:
  - Recommendations from previous years not implemented;
  - Recommendations from previous years implemented;
  - Recommendations from current year – including note when there are no issues highlighted during the year.
- g) **In all cases, a management letter MUST be issued. If no issues have arisen during the course of the audit, the auditors must issue a management letter stating that no issues have arisen. – This situation does not mean that the update on previous years will not be given.**
- h) Include a high, medium or low prioritisation on all issues arising in the management letters. Ranks should be allocated according to the following criteria:
  - A - a major weakness or a recurring issue that must be addressed soon
  - B - an important matter that will significantly improve the control environment, the accounting system or the operations of the business but is not so serious or prevalent as to be considered a major weakness
  - C - a minor (or isolated) weakness that should nevertheless be addressed to improve the control environment, the accounting system or the operations of the business.

## **8. Time Frame and Irish Aid Coordination with Auditors**

The precise time frame and reporting dates will be agreed with Irish Aid. The Irish Aid country office will have the primary responsibility for coordination with the auditors. The day to day audit manager within individual Irish Aid countries will be the internal auditor or where there is no internal auditor the programme accountant. The Evaluation and Audit Unit Limerick will be sent all draft audit reports and management letters and may review and comment on such before they are finalised.

**A debriefing session will be required at the Embassy to present to the senior management team the key findings of the audit reports and to discuss the follow up action necessary with the partners that the auditors recommend.**

Draft audit reports and management letters will be submitted within one month from the commencement of the audit. The audit process will be finalised within fifteen days from the submission of the draft report.

The auditors will respect the confidential nature of the exercise and will discuss it only with Irish Aid and with the individual programme/projects management or with others only as authorised by Irish Aid.

## 9. Selection Criteria

### Technical

- Understanding of the assignment, (5%)
- Methodology and approach, (10%)
- Background, profile and experience of the firm, (15%)
- Experience on similar assignments with sample lists of clients, (15%)
- Number of staff with qualification including qualifications and experience of staff to be deployed to each assignment, (15%)
- Affiliation with an international audit firm, (10%)

### Financial

- The fee quoted (*showing hours and costs by grade*) as well as transparency around the fee structure. (30%)

## 10. Conflict of Interest

Tenderers must disclose in their submissions details of any circumstances, including personal, financial and business activities that will, or might, give rise to any conflict of interest associated with any current or previous engagement/programme undertaken, or any relationship that may reasonably be perceived to potentially conflict or impact on their ability to participate in the Tender Process or fulfil the requirements of the engagement. This also includes any sub-contractor.

Failure to disclose a material conflict of interest may disqualify a Tenderer or cause the termination of any subsequent contract and entitle Irish Aid to seek remedies, such as cost or compensation for loss.

Where Tenderers identify any potential conflicts they should state how they intend to avoid such conflicts. Irish Aid reserves the right to reject any submission which, in the opinion of Irish Aid, gives rise, or could potentially give rise to, a conflict of interest.

Tenderers or any of their affiliates shall not be assigned any engagement which, by its nature, may be in conflict with another engagement of the applicant. Irish Aid may accept the participation of a consultant that has been engaged in the preparation of a project if it can be demonstrated that no unfair advantage is given to the consultant and that the tendering process offers equal opportunities to all Applicants. A declaration form (Appendix 1) must be signed to this effect

## 11. Tender Submission Instructions

Bidders are directed to the Tender Notice on [www.e-tenders.gov.ie](http://www.e-tenders.gov.ie) (Irish Government procurement web based portal), local newspapers, and Embassy of Ireland Ethiopia website. <https://www.dfa.ie/irish-embassy/ethiopia/>

The full set of Tender documents including the Terms of Reference, instructions for submitting a Tender and associated documents are available with e-Tenders Notice and Embassy of Ireland Ethiopia website, <https://www.dfa.ie/irish-embassy/ethiopia/>

Tenders are invited subject to the specifications set out in the instructions and should be submitted in English

Bids are expected to be submitted by hand to the Embassy of Ireland Ethiopia, Kazanches (*behind Radisson Blu Hotel*), P.O.Box 9585, Addis Ababa Ethiopia. Technical and financial proposals should be submitted in separate envelopes.

The closing date for submission of hard copies to the Embassy of Ireland, Ethiopia is close of Business 18<sup>th</sup> April 2017 noon.

Requests for clarification will be accepted up to 7<sup>th</sup> April 2017 and can be communicated to [± 251 11 5 180500](tel:+251115180500).

Alternatively, tenders may also be submitted electronically via the secure electronic post-box facility available on [www.e-tenders.gov.ie](http://www.e-tenders.gov.ie) (Irish Government procurement web based portal).

The closing date for electronic submissions to e-Tenders is Close of business 18<sup>th</sup> April 2017.

If applicants are experiencing difficulty in filing a tender electronically with e-tenders, please contact the Department of Foreign Affairs and Trade by email at [consultant.tenders@dfa.ie](mailto:consultant.tenders@dfa.ie) or call Maria Dowling Murphy on +353 61 77 4097.

Bidders are advised to allow adequate time for uploading documents and dispatch the electronic responses well in advance of the closing date to avoid any last minute problems.

## **12. Audits for 2017**

The attached table shows the list of Partners to be audited under this terms of reference.