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to overcome poverty

Revisions to the IFAD Guidelines on Project Audits

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the IFAD Guidelines on Project Audits, in the form presented in the annex to this document, for immediate application to all ongoing agreements for IFAD-funded agricultural development projects and programmes. The Executive Board is also requested to authorize the President to make non-substantive amendments to these Guidelines from time to time, with the subsequent provision of information to the Executive Board thereon.

Introduction

1. The Agreement Establishing IFAD, article 7, requires the Fund to make arrangements to ensure that the proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and social equity.
2. In 2003, IFAD issued the IFAD Guidelines on Project Audits (for Borrowers' Use) ("the current Guidelines") to provide practical guidance to IFAD project staff on the project audit cycle, and to disseminate a series of minimum requirements to ensure that project audits are performed properly. The coherent organization of the project audit cycle is a critical part of a structured financial management system, and the use of project audits is also an essential tool for risk management activities both at the project and the country level.
3. Since 2003, there have been changes in the IFAD project cycle, revisions to the General Conditions for Agricultural Development Financing, and an evolution in IFAD's operational model from supervision by cooperating institutions to direct supervision arrangements. A greater use of country financial systems has also been promoted, thereby increasing the level of ownership by Member States of IFAD-funded projects and programmes. Updating the Guidelines to reflect these changes together with lessons learned and best practice has therefore become essential for managing the project audit cycle.
4. The proposed Guidelines (see annexes) give Management the opportunity to align the Fund's audit procedures with corporate changes. Prepared by the Financial Operations Department in collaboration with the Programme Management Department and the Office of Audit and Oversight, they reflect best practice in place in other comparable organizations, and respond to Audit Committee and Executive Board requests.
5. The Guidelines are intended for use by borrowers and recipients of IFAD financing, government officials, project implementation unit managers and staff, and auditors of IFAD-funded projects – all of whom need to be fully aware of IFAD requirements with respect to project audits in order to carry out their fiduciary responsibilities effectively.
6. After Executive Board approval of the proposed Guidelines, revised operational procedures will be issued by the President. They will be used primarily by IFAD staff tasked with financial management responsibilities and by cooperating institutions, where appointed.
7. The Controller's and Financial Services Division monitors data related to all project audits, and is in the process of deploying a corporate information technology system to manage project audits and related information in a coherent and integrated way. This new system will allow improved monitoring of activities related to the ongoing portfolio.

Summary of key changes

8. The annexed comparative analysis of the current and proposed Guidelines gives details of the proposed changes. The revision addresses the following objectives:
- **Consistency.** The Guidelines have been updated to align their content to other IFAD basic legal texts and procedures that have been amended since 2003, year of publication of the original Guidelines. This includes consistency with the current project cycle and direct supervision modality and terminology, and their link to the overall project audit cycle, as well as consistency with the revisions to the General Conditions for Agricultural Development Financing introduced in 2009.
 - **Flexibility.** The proposed Guidelines accommodate supervision directly by IFAD or through a cooperating institution.
 - **Standardization.** The Guidelines give detailed information on the basic activities to be performed during the project audit cycle to ensure that project audit reports are regularly submitted and that they are in conformity with IFAD's fiduciary requirements. They also provide detailed templates, which can be tailored to project needs, for project consideration.
 - **Simplification.** Definitions have been simplified and language clarified.
 - **Harmonization.** The use of country financial systems, including supreme audit institutions, is promoted, harmonizing IFAD approaches with those of other international financing institutions.
 - **Direct supervision.** The revisions reflect that the appointment of a cooperating institution is an option rather than the rule.
 - **Introduction of best practices.** Where necessary, relevant provisions have been amended to reflect best practices in project cycle management and audit practices, such as conformity with internationally accepted auditing and accounting standards; and additional guidance as to the content of the project financial statements to be audited.

IFAD Guidelines on Project Audits – A Comparative Analysis		
IFAD Guidelines on Project Audits (for Borrowers' Use) Current	IFAD Guidelines on Project Audits Proposed	Differences between current and proposed Guidelines Comments
IFAD Guidelines on Project Audits (for Borrowers' use)	IFAD Guidelines on Project Audits	Removed reference to Borrowers.
I. Introduction	I. Introduction	

<p>1. Article 7, Section 1(c) of the <i>Agreement Establishing IFAD</i> requires the Fund to ensure that the proceeds of any financing are used only for the purpose for which a loan or grant was provided, with due attention to economy, efficiency and social equity. IFAD's <i>General Conditions for Agricultural Development Financing</i>¹ require the borrower (or project party) to have the accounts relating to a project audited each fiscal year, including the statements of expenditure (SOE) and special account (SA), in accordance with appropriate auditing principles and implemented by independent auditors, as specified in the loan documents.</p> <p>¹ Article IX – Financial Reporting and information, Section 9.03(a) Audit of Accounts.</p>	<p>1. Article 7, section 1(c) of the Agreement Establishing IFAD requires the Fund to ensure that the proceeds of any financing are used only for the purpose for which a loan or grant was provided, with due attention to economy, efficiency and social equity. IFAD's General Conditions for Agricultural Development Financing (hereafter "General Conditions")^a require the borrower (or project party) to have the accounts relating to a project or programme (hereafter "project") audited each fiscal year by independent auditors acceptable to the Fund, in accordance with auditing standards acceptable to the Fund and with these Guidelines.</p>	Amended to reflect changes in the General Conditions and for streamlining purposes.
<p>2. The project appraisal report will describe the assessment made at appraisal of the borrower's capacity for proper financial management, including the ability to produce periodic financial reports (generally every six months), and submit them annually for audit². Correct and timely execution by the borrower of this fiduciary responsibility is critical to ensuring that projects achieve their intended objectives within the allocated resources. Auditor's reports should point out any problems and irregularities identified during the audit and make recommendations for improvement.</p> <p>² The country wide financial management capacity assessment, if any, carried out by the CI will also provide information on the borrower's capacity in this regard.</p>	<p>2. The project design report will describe the assessment made of the borrower's capacity for proper financial management, including the ability to produce periodic financial reports (generally every six months), and submit them annually for audit. Correct and timely execution by the borrower and/or recipient (hereafter "borrower/recipient") of this fiduciary responsibility is critical to ensuring that projects achieve their intended objectives within the allocated resources. The external auditor's report should provide an auditor's opinion, point out any problems and irregularities identified during the audit, and make recommendations for improvement.</p>	Amended to reflect changes in IFAD's project cycle methodology whereby assessment will be made at design stage.
II. Audits	II. Audits	
3. An audit is an ex post review of the books of accounts, records	3. An audit is an ex post review of the financial activity within the	Changed reference from loan

^a References herein are to the General Conditions for Agricultural Development Financing adopted by the Executive Board on 29 April 2009, as subsequently amended. Projects subject to the earlier versions of the General Conditions should interpret these Guidelines in accordance with the applicable provisions of the earlier General Conditions.

<p>of transactions and financial and other systems maintained by a project coordination unit (PCU)³ for the purpose of executing a project, and of the financial statements prepared by a PCU reflecting project operations during a given period. Annex I describes the general principles governing project audits. An audit is carried out by professional accountants and aims to:</p> <ol style="list-style-type: none"> i. provide assurance of accountability; ii. give credibility to the financial statements and other management reports; iii. identify weaknesses in internal controls and financial systems; iv. verify compliance with loan covenants relating to financial matters; and v. make recommendations for improvement. <p>³ Also referred to as project implementation unit or project management unit.</p>	<p>project. The auditor's examination should therefore cover relevant books of accounts, records of transactions and financial systems maintained by the lead project agency (LPA) for the purpose of executing a project, and the financial statements prepared by an LPA reflecting project operations during a given period. Annex I describes the general principles governing project audits.</p> <p>The audit is carried out by appropriately qualified and experienced accountants/auditors and aims to:</p> <ol style="list-style-type: none"> i. Provide an independent assurance of accountability; ii. Give credibility to the financial statements and other management reports; iii. Identify weaknesses in internal controls and financial systems; iv. Verify compliance with financing agreement provisions relating to financial matters; and v. Make recommendations for improvement. 	<p>to financing agreement.</p>
<p>III. Establishment of Audit Arrangements</p>	<p>III. Establishment of audit arrangements</p>	
<p>ASSESSMENT OF THE AUDITOR'S CAPACITY</p>	<p>ASSESSMENT OF THE AUDITOR'S CAPACITY</p>	
<p>4. The groundwork for an audit, including determination of the availability and quality of auditors in the borrower's country, should be laid during the appraisal phase. Particular attention should be given to the:</p> <ol style="list-style-type: none"> i. overall status of the accounting and auditing profession; ii. competence and independence of the national supreme audit institution (SAI); and iii. selected auditors' adherence to acceptable standards of accounting and auditing. 	<p>4. The groundwork for the selection of the external auditor, including, where appropriate, determination of the availability and quality of auditors in the borrower's country, should be completed during the project design phase. Particular attention should be given to the:</p> <ol style="list-style-type: none"> i. Overall status of the accounting and auditing profession; ii. Competence and independence of the national supreme audit institution (SAI); and iii. The selected auditor's adherence to acceptable auditing standards. 	<p>Amended to reflect change in IFAD's project cycle methodology whereby assessment will be made at design stage.</p>
<p>5. Assessment of audit capacity within the borrowing country should be made during project appraisal. Agreement as to whether the project audit is to be carried out by the SAI or by a private audit firm should be reached prior to loan negotiation. A checklist for assessing an auditor's capacity, selection and appointment is given in Annex II.</p>	<p>5. Agreement as to whether the project audit is to be carried out by the SAI (or under its responsibility) or by a private audit firm should be reached prior to financing negotiation. The basis for discussion is outlined in IFAD's assessment of audit capacity within the country, or in the assessments of other international financing institutions (IFIs). A checklist for assessing an auditor's capacity, selection and appointment is given in annex II.</p>	<p>Added reference to prior assessment by IFAD or other IFIs. Changed reference from loan to financing negotiation.</p>
<p>APPOINTMENT OF THE AUDITOR</p>	<p>APPOINTMENT OF THE AUDITOR</p>	
<p>6. Article IX (Financial Reporting and Information), Section 9.03 (a) (Audit of Accounts) of IFAD's General Conditions stipulates the borrower's obligation with regard to annual audit of project accounts. The timing of the appointment of the auditor, as indicated in the loan agreement and the deadlines for submission</p>	<p>6. Article IX (Financial reporting and information), section 9.03 (Audit of accounts) of the General Conditions stipulates the borrower's obligations vis-à-vis project audits. Article X (Cooperation), section 10.04 (Audits initiated by the Fund) governs audits initiated by the Fund.</p>	<p>Changed to reflect current regulation – taken from the revised General Conditions. Removed reference to timing of appointment to be found in</p>

<p>of audit reports (normally within six months from fiscal year end) are usually found in Article V (Financial Reporting and Information) of the IFAD project loan agreement.</p>	<p>Usually audits are annual, but where risks are assessed to be particularly high, audits may, at the Fund's discretion, be requested more frequently.</p>	<p>the IFAD financing agreement. Added frequency where high risk is foreseen.</p>
<p>7. Prior to loan negotiation, there will be discussion with the borrower concerning the auditor's terms of reference (TOR) and the audit arrangements, including any special audit requirements⁴. If necessary, the appointment of the auditor will be made a condition of loan effectiveness or disbursement. Annex III contains IFAD's minimum requirements for a project audit. IFAD's audit requirements and TOR for the auditor are essential to ensure that auditors receive clear guidelines as to their task and that the scope and format of their report is established. Annex IV provides a model set of Guidelines for Auditors.</p> <p>⁴ In accordance with the Organization for Economic Co-operation and Development/MDB Development Assistance Committee Reference – Good Practices Paper #5: Financial Reporting & Auditing “a single audit opinion should normally cover the auditing needs of both the government and donors, who should agree on the terms of reference for the audit” and the scope of the audit should specify the need to review disbursements made under the SOE and SA procedures.</p>	<p>7. Prior to the financing negotiation, there will be discussion with the borrower concerning the auditor's terms of reference (TORs) and the audit arrangements, including special audit requirements (if any). IFAD may make the appointment of the auditor a condition of withdrawal (section 4.02). Annex III contains IFAD's minimum requirements for a project audit. IFAD's audit requirements and TORs for the auditor are essential to ensure that auditors receive clear guidelines as to their task and that the scope and format of their report are established. Annex IV provides a model set of guidelines for auditors.</p>	<p>Changed to reflect new General Conditions terminology – Entry into force.</p>
<p>8. Auditors should not be appointed as management consultants (e.g. consultancy for design of accounting systems and controls), as such appointments could create conflict of interest and increase the risk that shortcomings in a project might not be reported.</p>	<p>8. In accordance with international best practice and as recommended by the International Ethics Standards Board for Accountants (IESBA), contracted audit firms cannot provide consultancy services to the project (including the preparation of financial statements and the corresponding accounting activities) or have done so in the previous two years.</p>	<p>Integrated with relevant provisions in the revised IFAD Operational Procedures.</p>
<p>9. Once the selection process for the auditor is concluded, it is normal for the appointed audit firm to issue an engagement letter, confirming their acceptance of the appointment and outlining the methodology, scope and responsibilities under the audit. The PCU will sign and return a copy of the letter to the auditor. A sample audit engagement letter is given in Annex V.</p>	<p>9. TORs for the auditor to be engaged by the borrower/recipient are subject to no-objection by IFAD. IFAD staff may provide advice to borrowers based on these Guidelines, but they should not normally be involved in drafting the TORs.</p> <p>As project implementation proceeds, the resulting responsibilities for the various steps involved in the appointment of the auditor are as follows:</p> <ol style="list-style-type: none"> i. Borrower prepares TORs for the auditor in conformity with these Audit Guidelines, and sends it to IFAD for review and no-objection. Annex VI gives sample TORs for the audit of project financial statements, including statements of expenditure (SOEs) and special accounts (SAs)/designated accounts (DAs). ii. IFAD communicates “no objection” to borrower. iii. Borrower initiates the procurement process using the agreed TORs. 	<p>Provides detail of the process.</p>

	<p>iv. Borrower informs IFAD of the name of proposed auditor and the procurement process followed for the selection.</p> <p>v. IFAD communicates “no objection” to borrower on the selection of proposed auditor upon performance of the necessary due diligence.</p> <p>vi. Borrower appoints the auditor.</p> <p>vii. The auditor appointed normally issues a formal engagement letter confirming their acceptance of the appointment and outlining the methodology, scope and responsibilities under the audit. The borrower’s representative will sign and return a copy of the letter to the auditor. A sample audit engagement letter is given in annex V. In the case of SAIs, national procedures will be followed, provided they are acceptable to the Fund.</p>	
<p>10. The CI approves⁵ the TOR for the auditor to be engaged by the borrower. CI or IFAD staff should not be involved in drafting audit TORs, though there is no objection to their giving advice to borrowers based on these Guidelines. Annex VI gives a sample Terms of Reference for the Audit of Project Financial Statements, including SOEs and SAs.</p> <p>⁵ In the case of IFAD directly-supervised projects, IFAD staff approve the TOR for the auditor</p>	Deleted	Major points included in the paragraph above.
SUBMISSION OF THE AUDIT REPORT	SUBMISSION OF THE AUDIT REPORT	
<p>11. At due date as stipulated in the loan agreement (normally six months after the end of the borrower's fiscal year), the audit report is submitted by the borrower to both the CI and IFAD.</p>	<p>10. By the due date as stipulated in section 9.03(b) of the General Conditions (six months after the end of the borrower's fiscal year), the original audit report is submitted by the borrower to IFAD. IFAD may agree to accept an electronic advance copy, provided that adequate safeguards are in place to ensure that the Fund subsequently confirms, within a reasonable time period, that the electronic copy conforms to the original.</p> <p>IFAD’s and the borrower’s obligations with regard to audit report submission are as follows:</p> <p>i. At least 30 days (one month) before the end of the fiscal year, the borrower confirms to IFAD that an auditor has been appointed.</p> <p>ii. Project accounts and financial statements are audited at the end of each fiscal year, and the audit report and management letter are delivered to the borrower, generally within five months after the end of the fiscal year.</p> <p>iii. Borrower sends the original audit report to IFAD and may upload a scanned copy of it in the IFAD corporate audit system software within six months from the end of the fiscal year (or by any other date specified in the financing agreement).</p>	Provides details of current process.

	<p>iv. If IFAD does not receive an audit report by the due date, or if the report received is unsatisfactory, it will notify the borrower and the LPA of this fact. Where appropriate, IFAD, in consultation with the borrower, may consider engaging an independent auditor of its choice to carry out the project audit.</p> <p>v. If IFAD determines that the borrower's documentation submission is not complete and/or satisfactory, IFAD will communicate with the borrower and follow up until all documentation is received in the required format.</p> <p>vi. If the audit report is overdue for 90 days from the stipulated due date, IFAD will confirm the report's non-receipt and will prepare and send a "legal notice" informing the borrower that non-receipt of the audit report within 60 days will trigger the process of suspension of disbursements under the financing.</p> <p>vii. If the audit report is overdue for 180 days from the original due date and the borrower has not satisfactorily responded to the previous communications, IFAD will prepare a President's notice for suspension, which is automatic in accordance with section 12.01(b) of the General Conditions.</p> <p>11. The Fund may suspend, in whole or in part, the right of the borrower/recipient to request withdrawals from the loan and/or grant accounts if the Fund has not received any audit report or other document referred to in article VIII (Implementation reporting and information) or article IX (Financial reporting and information) of the General Conditions within the time prescribed in the agreements, or the audit report is not fully satisfactory to the Fund, or the borrower/recipient or any other project party has otherwise failed to perform its obligations under article VIII or IX.</p>	
<p>AUDIT REPORT REVIEW AND FOLLOW-UP</p>	<p>AUDIT REPORT REVIEW AND FOLLOW-UP</p>	
<p>12. The audit report package should include the audited financial statements, the auditor's opinion (including opinions on SOEs and SAs), a management letter, and any special reports required by IFAD. While the auditor's opinion will describe the acceptability or otherwise of the project financial statements, the management letter will detail the shortcomings, if any, in the project's internal controls, procedures and practices, together with appropriate recommendations for improvement. Annex VII gives an example of an auditor's opinion. Annex VIII provides an outline of a management letter.</p>	<p>12. The audit report package should normally include the audited financial statements, three separate audit opinions (on the financial statements, on the SOEs and/or financial monitoring reports, and on the SAs/DAs), a management letter, and any additional reports required by IFAD. While the auditor's opinion will describe the acceptability or otherwise of the project financial statements, the management letter will detail the shortcomings, if any, in the project's internal controls, procedures and practices, together with appropriate recommendations for improvement. Annex VII gives an example of an auditor's opinion. Annex VIII provides an outline of a management letter.</p>	<p>Detailed the need of three separate opinions; added reference to DAs.</p>

<p>13. When the auditor's report is received from the borrower, the CI will ensure that the audit has been carried out in accordance with IFAD's requirements. Particular attention should be paid to the auditor's opinion, the results of the compliance audit and the management letter.</p>	<p>13. Where arrangements are in place with a cooperating institution (CI), the CI will ensure that the audit has been carried out in accordance with the TORs.</p>	<p>Main concepts embedded in the following paragraph.</p>
<p>14. The review of the audit report will be carried out by the CI within 30 days of its receipt. If the audit report is unqualified, i.e. has not identified any irregularities or has made no recommendations for improvement in the project, then no further action will be necessary on the part of the CI, apart from acknowledgement under copy to IFAD.</p>	<p>14. IFAD/CI will carry out a comprehensive review of the audit report upon its receipt in order to establish the integrity of the audit process and the reliability of the financial statements. It will then prepare a communication to the borrower on the main findings arising from this review. If the review is satisfactory (i.e. there are no identified irregularities that give rise to financial concerns over IFAD financing and no substantial recommendations for improvement), IFAD will advise the borrower of completion of a satisfactory review. Such advice will be sent to the borrower not later than 60 days from receipt of the audit report. No further action will be necessary.</p>	<p>Added preparation of a communication to the borrower on the audit review findings and time period change</p>
<p>15. If the review of the audit report reveals problems or irregularities, the CI will advise the borrower of the concerns and inform IFAD. Such advice will be sent to the borrower and IFAD no later than 45 days from receipt of the audit report.</p>	<p>15. If the review of the audit report reveals problems or irregularities of a financial nature regarding IFAD financing, IFAD will advise the borrower of the concerns. Such advice will be sent to the borrower not later than 60 days from receipt of the audit report. IFAD may require that a time-bound remedial action plan be set up. The borrower should implement the remedial plan as agreed and keep IFAD informed of the action taken.</p>	<p>Added reference to borrower action plan and time period change.</p>
<p>16. Audit reports containing a qualified opinion, an adverse opinion or a disclaimer of opinion indicate prima facie the existence of problems and irregularities in project implementation. The CI's advice to the borrower would in such cases refer to the auditor's opinion in the report and seek explanations in response to the issues raised.</p>	<p>16. Audit reports containing a qualified opinion, an adverse opinion or a disclaimer of opinion indicate prima facie the existence of problems and irregularities in project implementation. Upon completion of the audit review, IFAD will advise the borrower in writing of the concerns, communicating the main findings of the audit review and the necessary remedial actions to be taken. Such advice will be sent to the borrower not later than 60 days from receipt of the audit report.</p>	<p>Added reference to the audit review; reiterated the communication from IFAD to the borrower within 60 days.</p>
<p>17. It is essential that CI staff monitor on a regular basis the submission of financial statements by the PCU, and that IFAD update its audit report monitoring system. A sample Status of Audit Report format is provided in Annex IX to assist the CI and PCU to maintain a record of the status of project audits.</p>	<p>17. IFAD monitors the submission of audit reports on a regular basis.</p>	<p>Replaced CI; removed reference to unaudited financial statements. Deleted reference to annex IX.</p>
<p>NON-COMPLIANCE WITH IFAD'S AUDIT COVENANTS</p>	<p>NON-COMPLIANCE WITH IFAD'S AUDIT COVENANTS</p>	
<p>18. If a borrower does not comply with the audit covenants contained in Article V (Financial Reporting and Information), Section 5 (Audit Reports) of the IFAD loan agreement, the Fund</p>	<p>18. If a borrower does not comply with the audit requirements contained in article IX (Financial reporting and information), and in particular section 9.03 (Audit of accounts) of the General Conditions,</p>	<p>Updated reference to General Conditions instead of the IFAD loan agreement.</p>

<p>(in consultation with the CIs as appropriate) will apply sanctions as provided for in the General Conditions, Article XII (Remedies of the Fund), Section 12.01(n) (Suspension by the Fund).⁶</p> <p>⁶ The General Conditions state: "The Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account, whenever the Fund has not received any audit report within the time prescribed therefore in the Loan Documents" The General Conditions Applicable to Loan and Guarantee Agreements (IFAD/9), dated 13 April 1978, adopted by the Executive Board at its Second Session (10–13 April 1978), apply to all the Loan and Guarantee agreements approved by the Board after 10 April 1978 and before 13 December 1978, 1-SRI to 10-NEP. The General Conditions Applicable to Loan and Guarantee Agreements (IFAD/9 Rev.1, Rev.2 and Rev.3), dated 11 December 1978, adopted by the Executive Board at its Fourth Session (11–12 December 1978), apply to all the Loan and Guarantee agreements approved by the Board after 12 December 1978 and before 20 September 1986, as follows: 11-MG to 193-MO, SRS-1-MR, BG-1-KE to BG-4-SO. The General Conditions Applicable to Loan and Guarantee Agreements (IFAD/9 Rev.4), dated 19 September 1986, approved by the Executive Board at its Twenty-Eighth Session (16–19 September 1986), apply to all the Loan and Guarantee agreements approved by the Board after 19 September 1986 and before 28 April 1999, as follows: 194-BA to 499-TN, SRS-2-GH to SRS-48-AO, BG-5-UG to BG-30-UG. The General Conditions for Agricultural Development Financing, dated February 1999, adopted by the Executive Board at its Sixty-Fifth Session (2–3 December 1998), apply to all agreements for agricultural development projects and programmes approved by the Board from 28 April 1999, starting from Loan number 500-BI, BG-31-TD.</p>	<p>the Fund will apply remedies as provided for in the General Conditions.</p>	
<p>19. As part of its remedial action, IFAD will apply Article VI (Remedies of the Fund) of the IFAD loan agreement, which states: 'If the Borrower does not timely furnish any audit report required by Section 5.02, and the Fund, after consultation with the Borrower, determines that the Borrower is unlikely to do so within a reasonable period thereafter, the Fund ... may engage independent auditors of its choice to audit the accounts relating to the Project. For such purpose, the Borrower and the Project Parties shall make their financial and other records available to such auditors promptly upon request, accord them full rights and privileges as agents of the Fund under Article X (Cooperation), Section 10.03 (Visits, Inspections and Enquiries) of the General Conditions and otherwise cooperate fully with such audit.' Article VI of the loan agreement further states: "... the Fund shall make the audit report available to the Borrower promptly upon its completion. The Fund shall finance the cost of such audit by withdrawal from the Loan Account on behalf of the Borrower, and the Borrower hereby authorizes the Fund to make such withdrawals."</p>	<p>19. As part of its remedial action, IFAD may engage independent auditors of its choice (section 9.03(c) of the General Conditions) and may finance the cost of such audit by withdrawal from the financing account. For such purpose, the borrower and the project parties shall make their financial and other records available to such auditors promptly.</p>	<p>Updated reference to General Conditions.</p>

<p>ANNEX I: GENERAL PRINCIPLES GOVERNING PROJECT AUDIT</p>	<p>ANNEX I: GENERAL PRINCIPLES GOVERNING PROJECT AUDITS</p>	
<p>1. Audits can vary considerably, depending on the objectives, project activities and expected reports or outcome. They can be classified into three categories: i. financial statement audits; ii. compliance audits; and iii. operational audits.</p>	<p>1. Audits can vary considerably, depending on the objectives, project activities and expected reports or outcome. They can be classified into three categories: i. Financial statement audits; ii. Compliance audits; and iii. Operational audits.</p>	<p>No changes.</p>
<p>FINANCIAL STATEMENT AUDITS</p>	<p>FINANCIAL STATEMENTS AUDITS</p>	
<p>2. The objective of a financial statement audit is to determine whether the statements are presented in conformity with acceptable International Accounting Standards (IAS) or other acceptable national standards. Each audit covers a specific period, usually the project fiscal year, and the cumulative accounts over the life of the project. A financial statement audit assesses whether reported disbursements were made in accordance with the relevant loan agreement. Attention is also given to disbursements based on statements of expenditure (SOE)¹ and special accounts (SAs).² The audit ascertains whether individual expenditures, which comprise the SOE totals, are properly authorized, eligible under the loan provisions, appropriately accounted for and fully supported by documentation retained in the borrower's files.</p> <p>¹ Statements of expenditure refer to the certified listing of certain specified categories of eligible project expenditures and those that are below the threshold amount as agreed with IFAD and CI, and attached to the disbursement withdrawal application submitted by the borrower. The relevant supporting documents are retained by the PCU and made available for review by the CI or IFAD supervision missions and by independent auditors.</p> <p>² Special account (or revolving fund) refers to a bank account established and maintained by the PCU for depositing the agreed initial imprest advance given out of the loan funds, and the subsequent replenishments made by IFAD based on withdrawal applications submitted by the PCU. The SA is usually maintained in United States dollars, and it is the responsibility of the PCU to attach to its replenishment requests a reconciliation of the United States dollar balance in the SA with the project records.</p>	<p>2. The objective of the audit of project financial statements is to determine whether the statements are presented in conformity with acceptable accounting standards, such as the International Financial Reporting Standards (IFRS), the International Public Sector Accounting Standards (IPSAS), or national standards where these are converging towards internationally recognized best practice and/or are deemed to provide minimum disclosures. Each audit covers a specific period, usually the project fiscal year. A financial statement audit assesses whether reported disbursements were made in accordance with the relevant financing agreement. Attention is also given to disbursements based on SOEs and SAs/DAs. The audit ascertains whether individual expenditures, which comprise the SOE totals, are properly authorized, eligible under the financing provisions, appropriately accounted for and fully supported by documentation retained in the borrower's files.</p>	<p>Updated reference to best practice.</p>
<p>3. The findings of the audit, in conjunction with any comments on SOE field reviews in project supervision reports, will be used by the CI and IFAD's Office of the Controller, Loans and Grants Unit (FC/L) to determine whether the borrower should continue to use</p>	<p>3. The findings of the audit, in conjunction with any comments on SOEs in project reports and historic experience in processing withdrawal applications, will be used by IFAD to determine whether the borrower should continue to use the SOE procedure. If SOEs</p>	<p>Added additional basis for determination.</p>

the SOE procedure. If SOEs are found to include ineligible expenditures, the borrower will be required to refund the amounts in question.	are found to include ineligible expenditures, the borrower will be required to refund the amounts in question.	
4. Where SAs have been established, the annual audit will verify whether withdrawals from SAs are properly authorized and eligible in accordance with the loan agreement. The audit will ensure that the year-end balance in the SA is reconciled with IFAD's records.	4. Where SAs/DAs have been established, the annual audit and checks during missions will verify whether withdrawals from SAs/DAs are properly authorized and eligible in accordance with the financing agreement. The audit will ensure that the year-end balance in the SA/DA is reconciled with IFAD's records.	Added reference to DA and additional basis for determination.
5. The auditor normally examines the project's system of accounting and other internal controls, including internal audit, as part of an audit of financial statements in order to express an opinion on the reliability of project financial statements produced by the borrower.	5. The auditor is expected, as specified in the TORs, to examine the project's system of accounting and other internal controls, including internal audit, as part of an audit of financial statements in order to express an opinion on the reliability of the project financial statements produced by the borrower.	Changed terminology.
COMPLIANCE AUDIT	COMPLIANCE AUDIT	
6. A compliance audit involves reviewing, testing and appraising an organization's controls and operating procedures, including compliance with regulations, contracts and laws to which the organization is subject.	6. A compliance audit involves reviewing, testing and appraising an organization's controls and operating procedures, including compliance with regulations, contracts and laws to which the organization is subject.	No changes.
OPERATIONAL AUDIT	OPERATIONAL AUDIT	
7. An operational audit is a more thorough examination of an organization's management techniques and performance. It may help to identify implementation issues for the purpose of prompt remedial actions at the project level. The primary product of an operational audit is a report recommending improvements in the efficiency and effectiveness of operations, encompassing, to the extent possible, all the major functions of the organization.	7. An operational audit is a more thorough examination of an organization's management techniques and performance. It may help to identify implementation issues for the purpose of prompt remedial actions at the project level. The primary product of an operational audit is a report recommending improvements in the efficiency and effectiveness of operations, encompassing, to the extent possible, all the major functions of the organization.	No changes.
MANAGEMENT LETTER	MANAGEMENT LETTER	
8. Audit reports should be accompanied by a management letter, ³ which is a report on an organization's internal controls and operating procedures and their effectiveness. It is based on the auditor's reviews during the normal course of an audit. ³ Auditors may provide an internal control memorandum instead of a management letter. A sample outline of a management letter is provided in Annex VIII to these Guidelines.	8. Audit reports should be accompanied by a management letter, ³ which is a report on an organization's internal controls and operating procedures and their effectiveness. It is based on the auditor's reviews during the normal course of an audit. A management letter also provides information on the status of implementation of recommendations issued in previous years. ³ Auditors may provide an internal control memorandum instead of a management letter. A sample outline of a management letter is provided in Annex VIII to these Guidelines.	Added reference to the status of implementation of previous years' recommendations.

AUDIT OPINIONS	AUDIT OPINIONS	
9. The audit report should contain a clear expression of opinion on the financial statements. The auditor's opinion may be unqualified, qualified, adverse, or a disclaimer of opinion.	9. The audit report should contain a clear expression of opinion on the financial statements. The auditor's opinion may be unqualified, qualified, adverse, or a disclaimer of opinion.	No changes.
10. An unqualified opinion indicates the auditor's satisfaction in all material respects with the preparation of the financial statement, its consistency, adequacy, and compliance with regulations, statutory requirements and any additional requirements stated in the corresponding audit TOR (e.g. review of SOE and SA-based disbursements).	10. An unqualified opinion indicates the auditor's satisfaction in all material respects with the preparation of the financial statements, and with their consistency, adequacy, and compliance with regulations, statutory requirements and any additional requirements stated in the corresponding audit TORs (e.g. review of SOEs and SA/DA-based disbursements). An unqualified opinion is normally fully acceptable to IFAD except when it is not in line with results of implementation support missions and/or other corroborating evidence.	Added reference to disbursements and of acceptability of audit report to IFAD.
11. A qualified opinion is issued when an auditor has reservations on specific areas and concludes that an unqualified opinion cannot be issued, but deems that the effect of any disagreement, uncertainty or limitation of scope of the audit does not require an adverse opinion or a disclaimer of opinion. The subject of the qualification and its financial effect must be clearly stated in the auditor's report.	11. A qualified opinion is issued when an auditor has reservations on specific areas and concludes that an unqualified opinion cannot be issued, but deems that the effect of any disagreement, uncertainty or limitation of scope of the audit does not require an adverse opinion or a disclaimer of opinion. The subject of the qualification and its financial effect must be clearly stated in the auditor's report. In case of a qualified opinion, IFAD will consider the impact on its fiduciary responsibilities, if any.	Added reference to acceptability of audit report to IFAD.
12. An adverse opinion is issued when the effect of the disagreement is so pervasive and material to the reliability of the financial statements that the auditor concludes that a qualification of the report will be insufficient to disclose the misleading or incomplete nature of the financial statements.	12. An adverse opinion is issued when the effect of the disagreement is so pervasive and material to the reliability of the financial statements that the auditor concludes that a qualification of the report will be insufficient to disclose the misleading or incomplete nature of the financial statements. This is normally not acceptable to IFAD.	Added reference to acceptability of audit report to IFAD.
13. A disclaimer of opinion is issued when the possible effect of an uncertainty or of a limitation on the scope of the auditor is so significant that the auditor is unable to express an opinion on the financial statements.	13. A disclaimer of opinion is issued when the possible effect of an uncertainty or of a limitation on the scope of the auditor is so significant that the auditor is unable to express an opinion on the financial statements. This is normally not acceptable to IFAD.	Added reference to acceptability of audit report to IFAD.

ANNEX II: CHECKLIST FOR CAPACITY ASSESSMENT, SELECTION AND APPOINTMENT OF AN AUDITOR	ANNEX II: CHECKLIST FOR CAPACITY ASSESSMENT, SELECTION AND APPOINTMENT OF AN AUDITOR	
<p>1. When the proposed auditor is the country's SAI, the CI and IFAD staff (the country portfolio manager and/or FC/L) will check the following general information about the SAI:</p> <ul style="list-style-type: none"> i. Does the SAI belong to the International Organization of Supreme Audit Institutions (INTOSAI)? ii. Is the SAI independent of the PCU and the responsible government ministry, for example, in terms of control over its budget and personnel? iii. Does the SAI report to the management of the project or to the PCU? iv. Is the SAI involved in approval of the project's transactions? v. Is the SAI involved in the internal control or financial management systems of the project or PCU? vi. Has the SAI consented to the appointment? 	<p>1. When the proposed auditor is the country's SAI, IFAD will check the following general information about the SAI:</p> <ul style="list-style-type: none"> i. Does the SAI belong to the International Organization of Supreme Audit Institutions (INTOSAI)? ii. Is the SAI independent of the lead project agency (LPA) and the responsible government ministry, for example, in terms of control over its budget and personnel? iii. Does the SAI report to the management of the project or to the LPA? iv. Is the SAI involved in approval of the project's transactions? v. Is the SAI involved in the internal control or financial management systems of the project or LPA? vi. Has the SAI consented to the appointment? <p>If the national SAI has previously performed the audit of an IFAD-funded project, IFAD will consider past record results:</p> <ul style="list-style-type: none"> i. Has the SAI fulfilled satisfactorily its responsibilities in previous projects? ii. Did the SAI submit all the audit reports due? iii. Were the reports submitted on time? iv. Was the overall quality of the audit reports acceptable? v. Was there any evidence, from the findings of IFAD supervision missions, that the audit reports failed to identify irregularities and weaknesses? vi. Were the SAI's recommendations appropriate to the problems and irregularities in the project? vii. Did the SAI follow up on previous audit findings during subsequent audits? 	<p>Merged most parts of the following paragraph.</p>
<p>2. When the country SAI is proposed as auditor, the CI and IFAD staff will also ascertain the following specific information from the records of previous project audits reports received from the country:</p> <ul style="list-style-type: none"> i. Has the SAI fulfilled satisfactorily its responsibilities in previous projects? ii. Did the SAI submit all the audit reports due? iii. Were the reports submitted on time? iv. Was the overall quality of the audit reports acceptable? v. Was there any evidence, from the findings of CI and IFAD 	<p>Deleted</p>	<p>Major points merged in the above paragraph.</p>

<p>supervision missions, that the audit reports failed to identify irregularities and weaknesses? vi. Were the SAI recommendations appropriate to the problems and irregularities in the project? vii. Did the SAI follow up on previous audit findings during subsequent audits?</p>		
<p>3. When the proposed auditor is a private audit firm, the CI or IFAD staff, or both, will check if the borrower's proposal is sufficiently transparent and thorough, and will, prior to consenting to the selection, seek answers to the following questions: i. Is there evidence of a competitive selection process for the auditor, say from a list of three to six qualified firms? ii. Was the selection based on a technical evaluation together with the financial evaluation?¹ iii. Is there evidence of the auditor's past experience and acceptable performance in similar audits? iv. Did the proposed auditor submit satisfactory references and descriptive material about the firm?</p> <p>¹ A technical evaluation includes the firm's track record and professional reputation, audit scope and methodology, and the qualifications and experience of staff assigned to the audit. A financial evaluation assesses the quotations from bidders for cost of the audit, including all reimbursable costs.</p>	<p>2. When the proposed auditor is a private audit firm, IFAD will check if the borrower's proposal is sufficiently transparent and thorough, and will, prior to consenting to the selection, seek answers to the following questions: i. Is there evidence of a competitive selection process for the auditor, say from a list of three to six qualified firms? ii. Was the selection based on a technical evaluation together with the financial evaluation? iii. Is there evidence of the auditor's past experience and acceptable performance in similar audits? iv. Did the proposed auditor submit satisfactory references and descriptive material about the firm?</p>	<p>Deleted reference to the CI.</p>
<p>4. In making a proposal for appointment of a private auditor, the borrower should provide the CI or IFAD, or both, with relevant supporting documentation and should address the following questions: i. Does the firm adhere to acceptable auditing standards? The firm's audit procedures and methods should ensure compliance with such standards. ii. Is the firm independent of the project entity to be audited and of the people appointing the auditor? iii. What is the legal status of the firm? This includes such aspects as partners' status and any limited liability provision in the firm's articles. iv. Are any of the assigned audit staff employed by or closely linked to the project entity to be audited, or to any government body or public agency? v. Can the auditor confirm that there is no conflict of interest or lack of independence implicit in accepting the appointment? vi. Is the auditor committed to providing qualified and experienced staff that can ensure timely submission of audit reports? In</p>	<p>3. In making a proposal for appointment of a private auditor, the borrower should provide IFAD with relevant supporting documentation and should address the following questions: i. Does the firm adhere to internationally accepted auditing standards? The firm's audit procedures and methods should ensure compliance with such standards. ii. Is the firm independent of the project entity to be audited and of the people appointing the auditor? iii. What is the legal status of the firm? This includes such aspects as partners' status and any limited liability provision in the firm's articles. iv. Are any of the assigned audit staff employed by or closely linked to the project entity to be audited, or to any government body or public agency? v. Can the auditor confirm that there is no conflict of interest or lack of independence implicit in accepting the appointment? vi. Is the auditor committed to providing qualified and experienced staff that can ensure timely submission of audit reports?</p>	<p>Deleted reference to CI and reiterated the need. to use internationally accepted auditing standards</p>

<p>particular: vii. What is the staffing plan for the audit? viii. What are the qualifications of the assigned staff? ix. Do the assigned staff belong to professional audit or accounting bodies such as the Institute of Chartered Accountants or Certified Public Accountants?</p>	<p>In particular: vii. What is the staffing plan for the audit? viii. What are the qualifications of the assigned staff? ix. Do the assigned staff belong to professional audit or accounting bodies such as the Institute of Chartered Accountants or the Institute of Certified Public Accountants?</p>	
<p>5. In assessing impartiality and independence, the borrower (project party) should find out whether the project auditor is employed by the project entity or umbrella organization, or serves as a director of it, or has any financial or business relationship with it whilst engaged as an independent professional auditor.</p>	<p>Deleted</p>	<p>Main concepts embedded in the above paragraph.</p>
<p>6. Auditors should not be appointed as management consultants responsible for designing accounting and control systems on which they would be required to comment. Such appointments would create a conflict of interest and increase the risk that auditors might not report shortcomings in the project.</p>	<p>4. Auditors should not be appointed as consultants responsible for designing accounting and control systems on which they would be required to comment. Such appointments would create a conflict of interest and increase the risk that auditors might not report shortcomings in the project. In general, and in accordance with international best practice and as recommended by IESBA, contracted audit firms cannot provide consultancy services to the project or have done so in the previous two years.</p>	<p>Added reference to IESBA.</p>
<p>7. The borrower should ensure that the auditor's fee is not established in any way that compromises independence.</p>	<p>5. The borrower should ensure that the auditor's fee is not established in any way that compromises independence.</p>	<p>No changes.</p>

ANNEX III: MINIMUM REQUIREMENTS FOR PROJECT AUDIT	ANNEX III: MINIMUM REQUIREMENTS FOR PROJECT AUDIT	
1. The minimum requirements for audit of IFAD-funded projects are explained to borrowers at the time of loan negotiations, with the understanding that they be conveyed to project auditors prior to audit in order to ensure satisfactory fulfilment of the requirements.	1. The minimum requirements for audit of IFAD-funded projects are explained to borrowers prior to financing negotiations, with the understanding that they be conveyed to project auditors prior to audit in order to ensure satisfactory fulfilment of the requirements.	Anticipated timing.
SCOPE AND OBJECTIVES OF THE AUDIT	SCOPE AND OBJECTIVES OF THE AUDIT	
2. The borrower and the PCU must ensure that the independent auditor acceptable to the CI and IFAD is appointed in sufficient time to carry out the audit. This includes review of the financial management system at the beginning of project implementation and periodically thereafter. ¹ ¹ If considered necessary, the appointment of auditor will be made a condition of loan effectiveness.	2. The borrower and the LPA must ensure that the independent auditor acceptable to IFAD is appointed in sufficient time to carry out the audit. This includes review of the financial management arrangements at the beginning of project implementation and periodically thereafter.	Deleted reference to CI; deleted footnote suggesting that the appointment of an auditor could be a condition of loan effectiveness.
3. The PCU will have the annual financial statements audited in accordance with acceptable auditing standards. The auditor's report should indicate the standards used, and the extent, if any, to which the examination did not conform to those standards.	3. The LPA will have the annual financial statements audited in accordance with internationally accepted auditing standards. The auditor's report should indicate the standards used, and the extent, if any, to which the examination did not conform to those standards.	Added reference to the use of internationally accepted auditing standards.
4. The audit report should contain a clear expression of the auditor's opinion regarding the financial statements. It should include a financial statements audit and a compliance audit, and should be accompanied by a management letter. It should also include a section on the project's compliance with loan covenants, particularly those dealing with financial matters. A full operational audit may be carried out if the CI and IFAD consider it necessary.	4. The audit report should contain a clear expression of the auditor's opinion regarding the financial statements. It should include a financial statements audit and a compliance audit, and should be accompanied by a management letter. It should also include a section on the project's compliance with the financing agreement, particularly those provisions dealing with financial matters. A full operational audit may be carried out if IFAD considers it necessary.	Changed reference from loan covenants to the financing agreement; deleted reference to CI.
5. The auditor will review the project accounts, including annual financial statements, SOEs and SA(s), and present an opinion covering the three elements. In addition the audit report will address: i. the adequacy of accounting and internal controls, including the internal audit mechanism, for monitoring expenditures and other financial transactions and ensuring safe custody of project assets; ii. the adequacy of documentation maintained by the PCU for all transactions; and iii. any other matters the CI and IFAD may reasonably request.	5. The auditor will review the project accounts, including annual financial statements, SOEs and SA(s)/DA(s), and present an opinion covering the three elements. In addition the audit report will address: i. The adequacy of accounting and internal controls, including the internal audit mechanism (where present), for monitoring expenditures and other financial transactions and ensuring safe custody of project assets; ii. The adequacy of documentation maintained by the LPA for all transactions; and	Added reference to DA, deleted reference to CI, made optional the use of the internal audit function.

	iii. Any other matters IFAD may reasonably request.	
<p>6. 'Project accounts' refers to the financial statements of the project, usually for a fiscal year. They must show the financial status of the project and consist of:</p> <ul style="list-style-type: none"> i. yearly and cumulative statements of sources and application of funds, which should disclose separately IFAD's funds, counterpart funds (government), other donors' funds and beneficiaries' funds; and ii. the balance sheet, which should disclose bank and cash balances that agree with the statement of sources and application of funds, fixed assets and liabilities. <p>Where the project consists of several entities, financial statements should be consolidated.</p>	<p>6. "Project accounts" refers to the financial statements of the project, usually for a fiscal year. They must show the financial status of the project and must be prepared in accordance with internationally accepted standards (IFRS, IPSAS) or government generally accepted auditing standards (GAAS) when converging towards international best practice. The content of the financial statements can vary depending on the standards used and the project circumstances. In any case, the minimum content is detailed as follows:</p> <ul style="list-style-type: none"> i. Yearly and prior-year statements of sources and application of funds, which should disclose separately IFAD's funds, counterpart funds (government), other donors' funds and beneficiaries' funds; ii. The balance sheet (when required), which should disclose bank and cash balances that agree with the statement of sources and application of funds, fixed assets and liabilities; iii. Withdrawal application schedule – SOEs (annual/cumulative); iv. SA (DA) statement/reconciliation; v. Cumulative status of funds by category (preferably in special drawing rights); and vi. Notes to the financial statements. <p>A separate management letter is part of the audit package. Where the project consists of several entities, financial statements should be consolidated. Where the project is implemented in different areas by different LPAs, proper arrangements should be made to allow consolidation.</p>	<p>Detailed content of the audit package; mentioned the need for a management letter; stressed the need for consolidation in some specific cases.</p>
<p>7. The auditor's opinion should deal with the adequacy of the procedures used by the project for preparing SOEs and should include a statement that amounts withdrawn from the loan account on the basis of such SOEs were used for the purposes intended under the loan agreement.</p>	<p>7. The auditor's opinion should deal with the adequacy of the procedures used by the project for preparing SOEs and should include a statement to the effect that amounts withdrawn from the financing account on the basis of such SOEs were used for the purposes intended under the financing agreement.</p>	<p>Changed reference from loan agreement to financing agreement.</p>

AUDIT METHODOLOGY	AUDIT METHODOLOGY	
<p>8. In reviewing the project accounts and financial statements, the auditor will:</p> <ul style="list-style-type: none"> i. verify that acceptable accounting standards have been consistently applied and indicate any material deviation from these standards, and the effect of such deviation on the annual financial statements; ii. assess the adequacy of accounting and internal control systems (procedures and responsibilities) for monitoring expenditures and other financial transactions (commitment, review, approval, payment and accounting) and ensuring safe custody of project-financed assets, and document any instances where controls are lacking or need strengthening; iii. determine whether the PCU has maintained adequate documentation for all transactions; e.g. procurement documents, contracts, suppliers' invoices, letters of credit and evidence of payment, and ascertain that expenditures were properly authorized and in compliance with legal requirements; iv. verify the numerical accuracy of statements and accounts; v. verify that disbursement requests for expenditures submitted to IFAD are eligible for financing under the loan agreement, and identify clearly any ineligible expenditures; and vi. carry out a physical verification of any significant assets purchased and confirm their existence and use for project purposes. 	<p>8. In reviewing the project accounts and financial statements, the auditor will:</p> <ul style="list-style-type: none"> i. Verify that acceptable accounting standards have been consistently applied and indicate any material deviation from these standards, and the effect of such deviation on the annual financial statements; ii. Assess the adequacy of accounting and internal control systems (procedures and responsibilities) for monitoring expenditures and other financial transactions (commitment, review, approval, payment and accounting) and ensuring safe custody of project-financed assets, and document any instances where controls are lacking or need strengthening; iii. Determine whether the LPA has maintained adequate documentation for all transactions, e.g. procurement documents, contracts, suppliers' invoices, letters of credit and evidence of payment, and ascertain that expenditures were properly authorized and in compliance with legal requirements; iv. Verify the numerical accuracy of statements and accounts; v. Verify that disbursement requests for expenditures submitted to IFAD are eligible for financing under the financing agreement, and identify clearly any ineligible expenditures; and vi. Carry out a physical verification of any significant assets purchased and confirm their existence and use for project purposes. 	No changes.
<p>9. From the second audit onwards, the auditor will follow up on the remedial actions taken by the PCU in response to previous audit findings and recommendations, and report on progress or otherwise.</p>	<p>9. From the second audit onwards, the auditor will follow up on the remedial actions taken by the borrower/recipient in response to previous audit findings and recommendations, and report on progress or otherwise. In this regard, IFAD-funded projects are required to set up a proper audit log for implementation monitoring purposes.</p>	Added reference to the introduction of an audit log.

ANNEX IV: GUIDELINES FOR AUDITORS	ANNEX IV: GUIDELINES FOR AUDITORS	
TERMS OF REFERENCE (TOR) AND ENGAGEMENT LETTER	TERMS OF REFERENCE (TORs) AND ENGAGEMENT LETTER	
<p>1. The CI approves the TOR for the auditor to be engaged by a borrower. The CI or IFAD staff should not be involved in drafting audit TOR, though there is no objection to their giving advice to borrowers based on these Guidelines. A borrower may wish to include in the TOR additional auditing tasks necessary to satisfy requirements of other financiers, including the borrower. These should in no way cause late delivery of the audit report.</p>	<p>1. IFAD approves, or provides a “no objection” to, the TORs for the auditor to be engaged by a borrower. IFAD staff should not normally be involved in drafting audit TORs, though there is no objection to their giving advice to borrowers based on these Guidelines. A borrower may wish to include in the TORs additional auditing tasks necessary to satisfy requirements of other financiers, including those of the borrower itself. These should in no way cause late delivery of the audit report.</p>	Deleted reference to CI.
<p>2. These Guidelines should not be regarded as universally applicable to audits of all IFAD-financed projects or project entities. Borrowers should select the components they consider appropriate for an audit and should add to the TOR relevant aspects that are not in the Guidelines. The Guidelines are applicable only to the appointment of auditors for the audit of the financial statements of a project, an implementing agency, or a financial intermediary or credit institution. They are not intended for special audits, reviews, investigations or consultancy assignments.</p>	<p>2. These Guidelines should not be regarded as universally applicable to audits of all IFAD-financed projects or project entities. Borrowers should select the components they consider appropriate for an audit and should add to the TORs relevant aspects that may not be included in these Guidelines. The Guidelines are applicable only to the appointment of auditors for the audit of the financial statements of a project, an implementing agency, or a financial intermediary or credit institution. They are not intended for special audits, reviews, investigations or consultancy assignments.</p>	Minor editorial changes.
<p>3. The auditor is responsible for expressing an opinion on the financial statements; responsibility for preparing and presenting the statements to the auditor lies with project management. The form of annual financial statements and supporting documentation to be supplied to the auditor, together with the estimated time for providing them, should therefore be specified.</p>	<p>3. The auditor is responsible for expressing an opinion on the financial statements; responsibility for preparing the statements and presenting them to the auditor lies with project management. The form of annual financial statements and supporting documentation to be supplied to the auditor, together with the estimated time for providing them, should therefore be specified.</p>	Minor changes.

<p>4. The scope of the audit should be explained by the borrower so that the auditor may determine if there are requirements beyond those of a routine audit. It is essential that the auditor becomes familiar with the project loan (or grant) agreement, and the Guidelines relating to project audit.</p> <p>The following are examples of routine audit requirements:</p> <ol style="list-style-type: none"> i. The audit should be carried out in accordance with acceptable auditing standards; the auditor should indicate any ways in which the examination would not conform to those standards. ii. The auditor should comment on and confirm the extent to which acceptable accounting standards have been and are being consistently applied; the auditor should indicate any material deviation from IAS and the effect on project's annual financial statements. 	<p>4. The scope of the audit should be explained by the borrower so that the auditor may determine if there are requirements beyond those of a routine audit. It is essential that the auditor become familiar with the project financing agreement and the IFAD Guidelines on Project Audits.</p> <p>The following are examples of routine audit requirements:</p> <ol style="list-style-type: none"> i. The audit should be carried out in accordance with internationally accepted auditing standards; the auditor should indicate any ways in which the examination would not conform to those standards. ii. The auditor should comment on and confirm the extent to which acceptable accounting standards have been and are being consistently applied; the auditor should indicate any material deviation from those standards and the effect on a project's annual financial statements. 	<p>Introduced reference to financing agreement, international audit standards. Removed reference to IAS.</p>
<p>5. The form and content of the auditor's TOR may vary for each project; only the relevant aspects should be included in the engagement letter. The TOR and the engagement letter should include the elements set out below.</p>	<p>5. The form and content of the auditor's TORs may vary for each project; only the relevant aspects should be included in the engagement letter. The TORs and the engagement letter should include the elements set out below.</p>	<p>No changes</p>
<p>SUMMARY OF CONTENTS OF THE TOR AND THE ENGAGEMENT LETTER</p>	<p>SUMMARY OF CONTENTS OF THE TORs AND THE ENGAGEMENT LETTER</p>	
<p>6. The summary should include:</p> <ol style="list-style-type: none"> i. description of the employing project authority or entity; ii. term of the auditor's engagement, namely whether it is for a fiscal year or some other period; iii. description and the timing of the financial statements and other material to be provided by project management for the audit; iv. terms for delivery of the audit report; v. specification that the audit should be carried out in accordance with acceptable standards; vi. provision of a management letter; vii. statement of access to project records, documents and personnel available to the auditor; and viii. details regarding submission of a proposal and work plan by the auditor. 	<p>6. The summary should include:</p> <ol style="list-style-type: none"> i. Description of the employing project authority or entity; ii. Term of the auditor's engagement, namely whether it is for a fiscal year or some other period; iii. Description and the timing of the financial statements and other material to be provided by project management for the audit; iv. Terms for delivery of the audit report; v. Specification that the audit be carried out in accordance with internationally accepted auditing standards; vi. Provision of a management letter; vii. Statement of access to project records, documents and personnel available to the auditor; and viii. Details regarding submission of a proposal and workplan by the auditor. 	<p>Introduced reference to international auditing standards.</p>
<p>DETAILS OF CONTENTS OF A TOR AND AN ENGAGEMENT LETTER</p>	<p>DETAILS OF CONTENTS OF TORs AND AN ENGAGEMENT LETTER</p>	
<p>7. The contents should include:</p> <ol style="list-style-type: none"> i. a description in the TOR of the entity engaging the auditor and whether it is acting on behalf of or is a constituent part of a larger 	<p>7. The contents should include:</p> <ol style="list-style-type: none"> i. A description in the TORs of the entity engaging the auditor and whether it is acting on behalf of or is a constituent part of a larger 	<p>Minor changes.</p>

<p>entity; and</p> <p>ii. legal and general descriptions of the project and the LPA, in sufficient detail to enable the auditor to understand their nature, objectives and activities.</p> <p>The following additional information would be helpful:</p> <p>iii. organizational charts;</p> <p>iv. names and titles of senior managers;</p> <p>v. names and qualifications of officers responsible for financial management, accounting and internal audit;</p> <p>vi. name and address of any existing external auditor, if a change is made;</p> <p>vii. description of information technology facilities and computer systems in use; and</p> <p>viii. copies of the latest financial statements, loan agreement, minutes of loan negotiations, project appraisal document, and annual work programme and budget, if it is available.</p>	<p>entity; and</p> <p>ii. Legal and general descriptions of the project and the LPA, in sufficient detail to enable the auditor to understand their nature, objectives and activities.</p> <p>The following additional information may be considered:</p> <p>iii. Organizational charts;</p> <p>iv. Names and titles of senior managers;</p> <p>v. Names and qualifications of officers responsible for financial management, accounting and internal audit;</p> <p>vi. Name and address of any existing external auditor, if a change is made;</p> <p>vii. Description of information technology facilities and computer systems in use; and</p> <p>viii. Copies of the latest financial statements, financing agreement, minutes of financing negotiations, project design document, and annual work programme and budget, if it is available.</p>	
<p>8. The auditor is required to provide an engagement letter, a sample of which is given in Annex V to these Guidelines. In countries where an auditor's obligations are provided for by law, this step may not be necessary; such a letter would still be informative, however, for the borrower, the CI and IFAD. It is in the interests of auditors and borrowers that the auditor sends the engagement letter before the audit commences in order to avoid misunderstandings.</p>	<p>8. Normally the auditor is required to provide an engagement letter, a sample of which is given in annex V to these Guidelines. In countries where an auditor's obligations are provided for by law, this step may not be necessary; such a letter would still, however, be informative for the borrower and IFAD. It is in the interests of auditors and borrowers that the auditor send the engagement letter before the audit commences in order to avoid misunderstandings.</p>	Deleted reference to CI.
<p>9. In the case of recurring audits, the auditor need not be asked to issue a new engagement letter each year. The following factors may, however, call for a new engagement letter:</p> <p>i. any indication that the client misunderstands the objective and scope of the audit;</p> <p>ii. any revised or special terms of the engagement;</p> <p>iii. change in project management;</p> <p>iv. significant change in the nature or size of the client project's activities; and</p> <p>v. legal requirements.</p>	<p>9. In the case of recurring audits, the auditor need not be asked to issue a new engagement letter each year. The following factors may, however, call for a new engagement letter:</p> <p>i. Any indication that the client misunderstands the objective and scope of the audit;</p> <p>ii. Any revised or special terms of the engagement;</p> <p>iii. Change in project management;</p> <p>iv. Significant change in the nature or size of the client project's activities; and</p> <p>v. Legal requirements.</p>	No changes.
<p>AUDITOR'S RESPONSIBILITIES</p>	<p>AUDITOR'S RESPONSIBILITIES</p>	
<p>10. The auditor should be expected to:</p> <p>i. submit a proposal including the audit fees, depending on the audit assignment, for the audit of financial statements of the project, the PCU, the financial intermediary or credit institution, or a combination of these, including SOEs and SAs;</p>	<p>10. The auditor should be expected to:</p> <p>i. Submit a proposal including the audit fees, depending on the audit assignment, for the audit of financial statements of the project, the LPA if applicable, the financial intermediary or credit institution, or a combination of these, including SOEs and SAs/DAs;</p>	Added reference to DA; added reference to the need of separate opinions on SOEs and SAs; minor changes in the internal audit

<p>ii. provide an opinion based on the scope and detail of the audit of financial statements, including SOEs, SAs, and other areas covered in the TOR, and follow up audit recommendations from previous years;</p> <p>iii. provide a management letter describing any weaknesses identified in the project accounting and internal control systems, including any internal audit function, and recommend improvements; and</p> <p>iv. provide a translation of the reports in English, French or Spanish if the originals were issued in another language.</p>	<p>ii. Provide an opinion based on the scope and detail of the audit of financial statements, including a separate opinion on the SOEs, SAs/DAs, and other areas covered in the TORs, and follow up audit recommendations from previous years;</p> <p>iii. Provide a management letter describing any weaknesses identified in the project accounting and internal control systems, including any internal audit function (if existing), and recommend improvements; and</p> <p>iv. Provide a translation of the reports in English, French, Spanish or Arabic (as per the official language of the borrower).</p>	part.
STATEMENTS OF EXPENDITURE (SOE)	STATEMENTS OF EXPENDITURE (SOE)	
<p>11. The auditor should be required to verify SOEs, accounting records and supporting documentation, and undertake a physical inspection of work done or goods and services acquired. The auditor should also, with reference to the disbursement letter sent from the CI to the borrower, establish that expenditures claimed for reimbursement under this procedure are eligible for financing in accordance with the provisions of the loan agreement.</p>	<p>11. The auditor should be required to verify SOEs, accounting records and supporting documentation, and undertake a physical inspection of work done or goods and services acquired. The auditor should also establish that expenditures claimed for reimbursement under this procedure are eligible for financing in accordance with the provisions of the financing agreement.</p>	Deleted reference to CI.
SPECIAL ACCOUNT (SA)	SPECIAL ACCOUNT /DESIGNATED ACCOUNT	Added DA.
<p>12. The auditor should be required to verify the correctness of transactions - withdrawals and replenishments including the exchange rates used - in the SA and the use of SA funds in accordance with the loan agreement. This should include examination of the reconciliation of the SA bank balance at year end with project records and IFAD's disbursement records.</p>	<p>12. The auditor should be required to verify the correctness of transactions – withdrawals and replenishments including the exchange rates used – in the SA/DA and the use of SA/DA funds in accordance with the financing agreement. This should include examination of the reconciliation of the SA/DA bank balance at year-end with project records and IFAD's disbursement records.</p>	Added DA.
CHANGE OR ROTATION OF AUDITORS	CHANGE OR ROTATION OF AUDITORS	
<p>13. Rotation of auditors after a number of years may be proposed, but frequent changes are not desirable in view of factors such as cost, the need for continuity and institutional memory, and shortage of qualified independent auditors in the borrower's country. The CI should ascertain the reasons for changing auditors. An evaluation of the auditor's performance should also be done periodically.</p>	<p>13. Rotation of auditors after a number of years may be proposed, but frequent changes are not desirable in view of factors such as cost, the need for continuity and institutional memory, and shortage of qualified independent auditors in the borrower's country. IFAD should ascertain the reasons for changing auditors. An evaluation of the auditor's performance should be done annually. To avoid long-term relationships between the project and the external auditors, which may compromise perceived independence, and to adhere to best practice, a full procurement process should normally be performed at a minimum every four years.</p>	Deleted reference to CI and introduced the necessity of a periodic procurement of audit services.

NON-ROUTINE AUDIT ENGAGEMENTS	NON-ROUTINE AUDIT ENGAGEMENTS	
<p>14. The auditor may be asked to conduct a special review of one or more of the following:</p> <ul style="list-style-type: none"> i. economy, efficiency and effectiveness in the use of project resources; ii. achievement of planned project results; iii. legal and financial obligations and commitments of the project and the extent of compliance or non-compliance thereof; iv. systems and procedures such as improvements in accounting, information technology or computer systems, and operations that may be under development, on which the auditor's comments are necessary to ensure effective controls; and v. other activities on which an auditor may consider it appropriate to report.¹ <p>¹ The foregoing list is not exhaustive, nor should all matters be addressed in every project. The scope and extent of an audit are likely to be unique to each project or project entity.</p>	<p>14. The auditor may be asked to conduct a special review of one or more of the following:</p> <ul style="list-style-type: none"> i. Economy, efficiency and effectiveness in the use of project resources; ii. Achievement of planned project results; iii. Legal and financial obligations and commitments of the project and the extent of compliance or non-compliance thereof; iv. Systems and procedures such as improvements in accounting, information technology or computer systems, and operations that may be under development, on which the auditor's comments are necessary to ensure effective controls; and v. Other activities on which an auditor may consider it appropriate to report.¹ <p>¹ The foregoing list is not exhaustive, nor should all matters be addressed in every project. The scope and extent of an audit are likely to be unique to each project or project entity</p>	<p>No changes.</p>

ANNEX V: SAMPLE OF AUDIT ENGAGEMENT LETTER	ANNEX V: SAMPLE OF AUDIT ENGAGEMENT LETTER	
<p>To the Project Management (or appropriate Project Manager):</p> <p>1.You have requested that we audit [insert names of financial statements – e.g. Sources and Uses of Funds for the Year Ending (dd/mm/yyyy) and Balance Sheet as of (dd/mm/yyyy)]. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be carried out in accordance with applicable audit regulations in [name of country], with the objective of our expressing an opinion on the financial statements, including the use of the statements of expenditure and special account.</p> <p>2. In forming our opinion on the financial statements, we will perform sufficient tests and reviews to obtain reasonable assurance as to whether the information contained in the underlying accounting records and other source data are reliable and sufficient as the basis for the preparation of the financial statements. We will also determine whether the information is properly communicated in the financial statements.</p> <p>3. Because of the nature of the tests and other inherent limitations of an audit, and the inherent limitations of any system of internal control, there is an unavoidable risk that some material misstatements may remain undiscovered. However, we expect to provide you with a separate management letter concerning any material weaknesses in internal control that come to our notice.</p> <p>4. May we remind you that project management is responsible for the preparation of financial statements, including adequate disclosure of relevant information. This includes maintenance of adequate accounting records and internal controls, selection and application of accounting policies, and safeguarding of assets. As part of our audit process, we will request from management written confirmation of representations made to us in connection with the audit.</p> <p>5. We should be given access to all legal documents, correspondence, and any other information associated with the project and deemed necessary by us for the purpose of our audit.</p> <p>6. We look forward to receiving the full cooperation of your staff. We trust that they will make available to us whatever records, documentation and other information we may request in connection</p>	<p>To the Project Management (or appropriate Project Manager):</p> <p>1. You have requested that we audit [insert names of financial statements – e.g. sources and uses of funds for the year ending [dd/mm/yyyy] and balance sheet as of [dd/mm/yyyy]]. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be carried out in accordance with International Standards on Auditing (ISAs) or other internationally accepted standards, with the objective of our expressing an opinion on the financial statements, including the use of the statements of expenditure and special account.</p> <p>2. In forming our opinion on the financial statements, we will perform sufficient tests and reviews to obtain reasonable assurance as to whether the information contained in the underlying accounting records and other source data are reliable and sufficient as the basis for the preparation of the financial statements. We will also determine whether the information is properly communicated in the financial statements.</p> <p>3. Because of the nature of the tests and other inherent limitations of an audit, and the inherent limitations of any system of internal control, there is an unavoidable risk that some material misstatements may remain undiscovered. However, we expect to provide you with a separate management letter concerning any material weaknesses in internal control that come to our notice.</p> <p>4. May we remind you that project management is responsible for the preparation of financial statements, including adequate disclosure of relevant information. This includes maintenance of adequate accounting records and internal controls, selection and application of accounting policies, and safeguarding of assets. As part of our audit process, we will request from management written confirmation of representations made to us in connection with the audit.</p> <p>5. We should be given access to all legal documents, correspondence, and any other information associated with the project and deemed necessary by us for the purpose of our audit.</p> <p>6. We look forward to receiving the full cooperation of your staff. We trust that they will make available to us whatever records, documentation and other information we may request in</p>	<p>Substituted “applicable audit regulations” in specific country with IAS or other internationally accepted standards.</p>

<p>with our audit.</p> <p>7. Our fees, which will be billed as the audit work progresses, are based on the time required by the staff and other resources assigned to the audit, plus direct out-of-pocket expenses. Individual hourly rates may vary according to the degree of responsibility involved and the experience and skills of staff require for the audit.</p> <p>8. Please sign and return the attached copy of this letter as confirmation that it is in agreement with your understanding of the arrangements for our audit of the financial statements.</p> <p>Name of firm or company</p> <p>[Chartered Accountants, Certified Public Accountants, or other recognized profession]</p> <p>NOTE: Additional items may be included in the TOR and engagement letter in accordance with the Guidelines for Auditors contained in Annex IV</p>	<p>connection with our audit.</p> <p>7. Our fees, which will be billed as the audit work progresses, are based on the time required by the staff and other resources assigned to the audit, plus direct out-of-pocket expenses. Individual hourly rates may vary according to the degree of responsibility involved and the experience and skills that staff require for the audit.</p> <p>8. Please sign and return the attached copy of this letter as confirmation that it is in agreement with your understanding of the arrangements for our audit of the financial statements.</p> <p>Name of firm or company</p> <p>(Chartered accountants, certified public accountants, or other recognized profession)</p> <p>NOTE: Additional items may be included in the TOR and engagement letter in accordance with the Guidelines for Auditors contained in Annex IV</p>	
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<p>ANNEX VI: SAMPLE OF TERMS OF REFERENCE (TOR) FOR AUDIT OF PROJECT FINANCIAL STATEMENTS AND ACCOMPANYING STATEMENT OF EXPENDITURES (SOE) AND SPECIAL ACCOUNT (SA)</p>	<p>ANNEX VI: SAMPLE OF TERMS OF REFERENCE (TOR) FOR AUDIT OF PROJECT FINANCIAL STATEMENTS AND ACCOMPANYING STATEMENT OF EXPENDITURES (SOE) AND SPECIAL ACCOUNT (SA)/DESIGNATED ACCOUNT (DA)</p>	
<p>OBJECTIVE</p> <p>1. The objective of the audit of the project financial statement (PFS) is to enable the auditor to express a professional opinion on the financial position of [insert name] project at the end of each fiscal year and of the funds received and expenditures incurred for the accounting period ended [dd/mm/yyyy], as reported in the PFS, including an opinion on the statements of expenditure (SOE) and special account (SA).</p> <p>2. The project books of accounts and records provide the basis for preparation of the PFS and have been maintained to reflect all financial transactions in respect of the project by the project-implementing agency [insert name].</p> <p>3. The audit will be carried out in accordance with [state basis] and will include such tests and reviews, as the auditor considers necessary under the circumstances. Special attention will be paid to establishing that:</p> <p>i. all external funds have been used in accordance with the conditions stipulated in the financing agreements, with due attention to economy and efficiency, and solely for the purposes for which the financing was provided. The relevant financing agreements are: [insert names of loan agreements];</p> <p>ii. counterpart funds have been provided by [name the government ministry or the entity] and used in accordance with national or organizational financial regulations, with due attention to economy and efficiency, and solely for the purposes for which they were provided;</p> <p>iii. goods, consultancy and other services, and civil works financed out of project funds have been procured in accordance with stipulations in the financing agreement and/or government regulations;</p> <p>iv. all necessary supporting documents, records and accounts have been kept in respect of all project ventures, including expenditures reported via SOEs or SAs;¹</p> <p>v. the SA has been used in accordance with the provisions of the</p>	<p style="text-align: center;">Terms of reference for an audit of [project name] financed under IFAD financing [xxx]</p> <p>The following are the terms of reference (TORs) on the basis of which the lead project agency (LPA) agrees to engage the audit firm (“the auditor”) to perform an audit and to report in connection with the agreement with the International Fund for Agricultural Development (IFAD) concerning [title of the project and loan/grant number].</p> <p>1.1 Responsibilities of the parties to the engagement</p> <p>The LPA refers to the entity that executes the project on behalf of the borrower/recipient and that has signed the agreement with IFAD.</p> <ul style="list-style-type: none"> • The LPA is responsible for providing financial statements for the activities financed by the financing agreement and for ensuring that these financial statements can be properly reconciled to the LPA records and accounts in respect of these services. • The LPA accepts that the ability of the auditor to perform the procedures required by this engagement effectively depends on the LPA’s providing full and free access to its staff and records and accounts. • The LPA shall provide the auditor with all necessary documentation to perform the assignment properly; in particular, the following information shall be provided to the auditor before the beginning of the assignment: <ul style="list-style-type: none"> ➤ Financing agreement; ➤ Annual progress report; ➤ Project implementation manual; ➤ Financial management manual; ➤ Organizational charts along with names and titles of senior managers; ➤ Names and qualifications of officers responsible for financial management, accounting and internal audit; ➤ Description of information technology facilities and 	<p>Original format completely changed.</p>

financing agreement; and
vi. the project accounts have been prepared in accordance with consistently applied [state basis] and give a true and fair view of the financial status of the project at [dd/mm/yyyy] and of resources and expenditures for the year ended on that date.

¹ It should be noted that clear linkages should exist between the project books of accounts and the reports presented to the CI and IFAD.

PROJECT FINANCIAL STATEMENTS

4. The PFS will include the following:

- i. yearly and cumulative statements of sources and application of funds, which should disclose separately IFAD's funds, counterpart funds (government), other donor funds and beneficiaries' funds;
- ii. Balance sheet, which should disclose bank and cash balances (that should agree with the statement of sources and application of funds), fixed assets and liabilities;
- iii. yearly and cumulative SOEs by withdrawal application and category of expenditures;
- iv. reconciliation of the SA; and
- v. consolidated financial statements, where a project consists of more than one entity.

5. A reconciliation between the amounts shown as received by the project and those shown as being disbursed by IFAD should be attached as an annex to the PFS. As part of that reconciliation, the auditor will indicate the procedure used for disbursement – SA funds, letters of credit, special commitments, reimbursement or direct payment – and indicate whether the expenditure is fully documented or uses the SOE format.

STATEMENTS OF EXPENDITURE (SOEs)

6. In addition to the audit of the PFS, the audit will include a review of SOEs used as the basis for submitting withdrawal applications. The auditor will carry out tests and reviews as necessary and relevant to the circumstances. SOE expenditures will be carefully compared for eligibility with relevant financial agreements, and the disbursement letter, and with reference to the project appraisal report² for guidance when necessary. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, auditors will note these separately.

A schedule listing individual SOEs withdrawal applications by

computer systems in use; and

- Copies of the minutes of negotiations, the project design document, the annual work programme and budget, and the Letter to the Borrower, if available.

“The auditor” refers to the auditor who is responsible for performing the agreed procedures as specified in these TORs, and for submitting a report of factual findings to the **LPA**.

The auditor shall provide:

- **A separate opinion on the project financial statements (PFSs).**

Minimum content of the PFSs to be provided by the project:

- Yearly and cumulative statements of sources and application of funds, which should disclose separately IFAD's funds, other donors' funds and beneficiaries' funds;
- Yearly and cumulative SOEs by withdrawal application and category of expenditures;
- Reconciliation between the amounts shown as received by the project and those shown as being disbursed by IFAD should be attached as an annex to the PFSs. As part of that reconciliation, the auditor will indicate the procedure used for disbursement (SA funds, letters of credit, special commitments, reimbursement or direct payment) and indicate whether the expenditure is fully documented or uses the summary of expenditures format;
- Cumulative status of funds by category;
- Reconciliation of SA/DA account statement;
- A statement of comparison between actual expenditures and budget estimates;
- Notes accompanying the PFSs; fixed assets;
- Full disclosure of cash balances; and
- Other statements or disclosures relevant to the project, e.g. financial monitoring reports, credit lines, etc.

- **A separate opinion on the use of the SA/DA.** The auditor is also required to audit the activities of the SA/DA associated with the project, including the initial advance, replenishments, interest that may accrue on the outstanding balances, and the year-end balances. The auditor must form an opinion as to the degree of compliance with IFAD procedures and the balance of the SA/DA at year-end. The audit should examine: (i) the eligibility of withdrawals from the SA/DA during the period under review; (ii) the operation of the SA/DA in accordance with the

reference number and amount should be attached to the PFS. The total withdrawals under the SOE procedure should be part of the overall reconciliation of IFAD disbursements described above.

² Also referred to as project appraisal document (PAD).

SPECIAL ACCOUNTS (SAS)

7. The auditor is also required to audit the activities of the SA(s)³ associated with the project, including the Authorized Allocation or Initial Deposit, replenishments, interest that may accrue on the outstanding balances, and the year-end balances. The auditor must form an opinion as to the degree of compliance with IFAD procedures and the balance(s) of the SA(s) at year end. The audit should examine: (i) the eligibility of withdrawals from the SA during the period under review; (ii) the operation of the SA in accordance with the relevant financing agreement(s);⁴ (iii) the adequacy of internal controls within the project appropriate for this disbursement mechanism; and (iv) the use of correct exchange rate(s) to convert local currency expenditures to United States dollars.

³ Separate SAs should be established and maintained for IFAD funds and other donor funds.

⁴ References to project SAs are provided in the relevant financing agreements.

AUDIT OPINION

8. As part of the opinion on the PFS, the audit report will include an opinion on SOEs and SAs, indicating the extent to which these procedures can be relied upon as a basis for loan disbursements under the project.

MANAGEMENT LETTER

9. The auditor will provide a management letter⁵ (A sample outline of a management letter is given in Annex VIII.) which will identify deficiencies in the project accounting records, procedures, systems and internal controls and make appropriate recommendations for improvement. The management letter will also include any other significant matters that come to the auditor's attention and might have material impact on project implementation.

⁵ The auditor's report should be addressed to the entity requesting the audit, usually the borrower or project implementing agency, unless required otherwise by local regulations.

financing agreement and other instructions provided to the borrower/recipient by IFAD; (iii) the adequacy of internal controls within the project appropriate for this disbursement mechanism; and (iv) the use of correct exchange rate(s) to convert local currency expenditures to the denominated currency of the SA.

- **A separate opinion on withdrawal applications/ statements of expenditure/summary of expenditures (SOEs).** The audit will include a review of SOEs used as the basis for submitting withdrawal applications. The auditor will carry out tests and reviews as necessary and relevant to the circumstances. SOE expenditures will be carefully compared for eligibility with relevant financial agreements and the disbursement letter, with reference to the project design report for guidance when necessary. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, auditors will note these separately. A schedule listing individual SOEs withdrawal applications by reference number and amount should be attached to the PFSs. The total withdrawals under the SOE procedure should be part of the overall reconciliation of IFAD disbursements described above. The auditor's opinion should deal with the adequacy of the procedures used by the project for preparing SOEs and should include a statement that amounts withdrawn from the project account on the basis of such SOEs were used for the purposes intended under the agreement.
- **A separate management letter** addressing the adequacy of the accounting and internal control systems of the programme, including compliance with the IFAD Procurement Guidelines and such other matters as IFAD may notify the LPA to include in the audit.

The auditor is requested to comment on:

- Economy, efficiency and effectiveness in the use of project resources;
- Achievement of planned project results;
- Legal and financial obligations and commitments of the project and the extent of compliance or non-compliance thereof;
- Systems and procedures such as improvements in accounting, information technology or computer systems, and operations that may be under development, on which the auditor's comments are necessary to ensure effective controls; and

- Other activities on which the auditor may consider it appropriate to report.
- **Auditors shall certify:**
 - Whether the PFSs are drawn up in conformity with internationally accepted accounting standards;
 - Whether the PFSs are accurate and are drawn up from the books of accounts maintained by the project;
 - Whether the provisions of the financing agreement are adhered to;
 - Whether procurement has been undertaken by the project in accordance with applicable procurement procedures and the IFAD Procurement Guidelines;
 - The existence of any significant assets purchased and confirm their existence and use for project purposes;
 - Whether the project has an effective system of financial supervision or internal audit at all levels; and
 - Whether the expenditures claimed through SOEs are properly approved, classified and supported by adequate documentation.
- The auditor is a member of the Institute of Registered Auditors of [country], which in turn is a member of the International Federation of Accountants (IFAC). In the case of supreme audit institutions, these should be members of the International Organization of Supreme Audit Institutions (INTOSAI).

1.2 Subject of the engagement

The subjects of this engagement are the financial statements dated [dd/mm/yyyy] in connection with the agreement for the period covering [dd/mm/yyyy to dd/mm/yyyy]. The information, both financial and non-financial, that is subject to verification by the auditor is all information that makes it possible to verify that the expenditures claimed by the LPA in financial statements have occurred, and are accurate and eligible. Annex 1 to these TORs contains an overview of key information about the agreement and the services concerned.

1.3 Reason for the engagement

The LPA is required to submit to IFAD an audit report produced by an external auditor under article IX of the General Conditions for Agricultural Development Financing.

1.4 Engagement type and objective

This constitutes an engagement to perform specific agreed procedures following the IFAD Guidelines on Project Audits provided to the auditors by the LPA in annex 2 of these TORs. The objective of this audit is for the auditor:

- To verify that the expenditures claimed by the LPA in the financial statements for the activities covered by the agreement have occurred (“reality”), are accurate (“exact”) and are eligible (i.e. that expenditure has been incurred in accordance with the terms and conditions of the agreement); and
- To submit a report of factual findings with regard to the agreed procedures performed.

1.5 Scope of work

1.5.1 The auditor shall undertake this engagement in accordance with these TORs and with:

- International Standards on Auditing (ISAs) to perform agreed procedures regarding financial Information as promulgated by IFAC;
- The Code of Ethics for Professional Accountants issued by IFAC. Although the International Standard on Related Services 4400 provides that independence is not a requirement for agreed procedures engagement, IFAD requires that the auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants.
- IFAD Guidelines on Project Audits.

1.5.2 Terms and conditions of the agreement

The auditor verifies that the funds provided by the agreement were spent in accordance with the terms and conditions of the agreement.

1.5.3 Planning, procedures, documentation and evidence

The auditor should plan the work so that an effective audit can be performed. For this purpose, the auditor performs the procedures specified in the IFAD Guidelines on Project Audits and uses the evidence obtained from these procedures as the basis for the report of factual findings. The auditor should document matters that are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance

with ISAs and these TORs.

1.6 Reporting

The report on this audit should describe the purpose and the agreed procedures of the engagement in sufficient detail to enable the LPA and IFAD to understand the nature and extent of the procedures performed by the auditor. Use of financial and audit reporting is governed by IFAD rules.

1.7 Other terms

[As necessary]

Annex 1: Information about the subject of the audit

[The table below should be completed by the project coordination unit and be attached as annex 1 to the TORs for use by the auditor.]

Information about the subject of the audit	
Reference number and date of the agreement	
Country	
Legal basis for the agreement	
Start date of the agreement	
End date of the agreement	

ANNEX 2: IFAD Guidelines on Project Audits
[To attach]

<p>ANNEX VII: SAMPLE OF AUDITOR'S OPINION MODEL AUDIT REPORT</p>	<p>ANNEX VII: SAMPLE OF AUDITOR'S OPINION MODEL AUDIT REPORT</p>	
<p>Unqualified Opinion for:</p> <p>I. Project Coordination Unit/Project Implementing Agency</p> <p>II. Project Financial Statement, including SOE</p> <p>III. Special Account</p> <p>Addressee¹</p> <p>Introduction</p> <p>We have audited the accompanying [name of each financial statement] of the [name of organization, name of project] under IFAD Loan No. ____ as of [dd/mm/yyyy] and for the year then ended. These financial statements are the responsibility of [insert name of borrower]; our responsibility is to express an opinion on each of these financial statements based on our audit.</p> <p>Scope</p> <p>We conducted our audit in accordance with [state basis – e.g. international Standards on Auditing] and IFAD's guidelines for statements of expenditure (SOEs) and special accounts (SAs). Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by project management; and evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.</p> <p>Opinion</p> <p>in our opinion, the financial statements give a true and fair view of:</p> <p>i. The financial position of [name of organization] as of [dd/mm/yyyy] and of the results of its operations and its cash flows for the year then ended in accordance with [indicate international Accounting Standards (IAS) or relevant national standards].</p> <p>ii. The sources and applications of funds² of [name] project for the year ended [dd/mm/yyyy] in accordance with [indicate IAS or relevant national standards]. Note: if a balance sheet is required, add "financial position" at [dd/mm/yyyy]; in addition, (a) with respect to SOEs, adequate supporting</p>	<p>INDEPENDENT AUDITOR'S REPORT [Addressee]</p> <p>Report on the financial statements</p> <p>We have audited the accompanying financial statements of _____, which comprise the statement of financial position as at [dd/mm/yyyy], the statement of sources and uses of funds, statement of expenditures (SOEs) and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.</p> <p>Management's responsibility for the financial statements</p> <p>Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (or others), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.</p> <p>Auditor's responsibility</p> <p>Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) and the International Fund for Agricultural Development Guidelines for Project Audits ("the IFAD Guidelines"). Those standards (ISAs and IFAD Guidelines) require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.</p> <p>An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used</p>	<p>Completely changed</p>

documentation has been maintained to support claims to IFAD for reimbursements of expenditures incurred; and (b) such expenditures are eligible for financing under IFAD Loan Agreement No. _____.

iii. The financial position of the SA of the [name] project as of [dd/mm/yyyy] for the year then ended in accordance with [IAS or relevant national standards] and IFAD guidelines, and of the sources and application of funds.

[Name and address of audit firm]

[Completion date of audit]

¹ The auditor's report should be addressed to the entity requesting the audit, usually the borrower or project implementing agency, unless required otherwise by local regulations.

² A Source and Application of Funds statement is always required for each project. A Balance Sheet is also required where the project has assets and liabilities.

and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, [or give a true and fair view of] the financial position of [name of project] financed with the IFAD [mention financial product] as at [dd/mm/yyyy] and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the IFAD Guidelines.

In addition, (a) with respect to the SOE withdrawal application schedule, adequate supporting documentation has been maintained to support claims for reimbursements of expenditures incurred; and (b) such expenditures are eligible under the agreement referred to in [_____].

In addition, in our opinion, the accompanying special/designated account statement presents fairly, in all material respects, the funds received and disbursements made from the special/designated account of the project for the year ended on [dd/mm/yyyy], in accordance with the accounting convention as described in the note above [_____].

Restriction of use

This report is intended solely for the use of the Management of the project, IFAD, and the Government of [_____], and should not be used for any other purpose.

Report on other legal and regulatory requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

<p>ANNEX VIII: SAMPLE OF OUTLINE OF A MANAGEMENT LETTER</p>	<p>ANNEX VIII: SAMPLE OF OUTLINE OF A MANAGEMENT LETTER</p>	
<p>Addressee:</p> <p>We have audited the financial statements of [name of project or entity] for the year ending [mm/yyyy] and have issued our report dated [dd/mm/yyyy]. in planning and performing our audit of [name of project or entity], we reviewed its internal accounting control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, not to provide assurance on the internal accounting control structure. We noted no matters involving the internal accounting control structure and its operation that we consider to be material weaknesses in accordance with [international accounting standards or relevant national standards].</p> <p>This report consists of three sections:</p> <p>i. Section i contains recommendations relating to improvements in existing systems and procedures noted in the current year.</p> <p>ii. Section ii contains recommendations from prior years that have not yet been fully implemented.</p> <p>iii. Section iii contains recommendations from prior years that have been fully implemented. (Management’s comments are noted following each recommendation.)</p> <p>This report is intended solely for the information and use of management and others within [name of project or entity] and should not be used for any other purpose.</p> <p>During this year’s audit we noted that [name of company or entity] has addressed most of the recommendations included in our prior year report. With respect to our current and carryover recommendations, we suggest that the management should continue to implement improvements based on an updated timetable.</p> <p>Very truly yours,</p> <p>[Name and address of Audit Firm]</p>	<p>MANAGEMENT REPORT FOR THE YEAR ENDED [dd/mm/yyyy]</p> <p>We have recently completed our audit of [name of project] for the year ended [dd/mm/yyyy]. In accordance with our normal audit practice, the purpose of this letter is to comment on certain matters that we identified during the course of the audit. Our comments, together with our recommendations for improvements, are presented in the report that follows.</p> <p>Our audit procedures are designed primarily to enable us to obtain sufficient assurance to express an opinion on the project’s financial position and the results of its operations. Consequently, a risk-based approach is used, which enables us to direct the major part of our audit effort to addressing general and specific identified risk areas within your organization.</p> <p>AUDIT SCOPE</p> <p>The scope of our audit included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the operations of the organization and the accounting systems in place; • Identifying specific risks and potential misstatements relating to the major account balances and transactions; • Identifying the computer processing environments existing within the organization; • Substantive tests of detail of the material accounts; and • Following up on issues identified in the prior year management report. <p>STATEMENT OF RESPONSIBILITY</p> <p>It should be noted that the implementation and maintenance of systems of accounting and internal control are primarily the responsibility of Management. Our responsibility is to plan and perform audit work such that there is a reasonable expectation of detecting material irregularities and control weaknesses. As a result, the attached report should not be regarded as a complete list of internal control weaknesses.</p>	

	<p>STATUS OF INTERNAL CONTROL SYSTEM</p> <p>In general, the control environment continues to be reliable although we encourage Management to address the issues raised in the attached report.</p> <p>The report has been discussed with Management and their comments have been included as Management comments. However, should you wish to discuss any of the points further, do not hesitate to contact us.</p> <p>UPDATE ON THE IMPLEMENTATION STATUS OF RECOMMENDATIONS ISSUED DURING PREVIOUS AUDIT EXERCISES</p> <p>[To list here an update on the status of implementation of previous years audit recommendations].</p> <p>CONCLUSION</p> <p>We would like to take this opportunity to express our appreciation for the courtesy and assistance afforded us by both Management and staff during the course of our audit.</p>	
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ANNEX IX: SAMPLE OF STATUS OF AUDIT REPORT

Project No: _____ Loan agreement date: _____
 IFAD loan No: _____ Effective date: _____
 Project name: _____ Project completion date: _____
 Loan closing date: _____
 First disbursement date: _____

Audit requirement in loan agreement: Section _____
 Fiscal year period: _____
 Audit report due date: _____
 Mutually agreed auditor: independent/SAI/other: _____

1	2	3	4	5
Audit report for fiscal year ending	Due date (dd/mm/yy)	Date prepared (dd/mm/yy)	Date sent to CI (dd/mm/yy)	Remarks

Deleted

Deleted

LOG OF AUDIT OBSERVATIONS							
Project name:							
Serial no.	Financial year	Class: serious / general	Audit Ref.	Audit observation	Amount	LPA action	Auditor's validation results Implemented/settled Partially settled Not implemented/pending