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|  | EUROPEAN COMMISSION | |
| **TERMS OF REFERENCE FOR**  **A SYSTEMS AUDIT**  **Design and operating effectiveness of the Internal Control System**  If there isa # of a Rfs **<# of RfS>**  The present terms of reference apply to the audit of the design and operating effectiveness of the internal control system governed by ISAE 3000, for the following contracts:  Contract number / IT system: <reference>  Detailed information is provided at the cover page of Annex 1  **IMPORTANT!**  **Eligibility Rules:**  *For Specific Contracts to be signed under the AFWC 2018, and/or AFC 2023, the eligibility in terms of nationality will be governed by the instrument applicable to the programme under which the Specific Contract is financed. In case a consortium member is not eligible for the Programme financing the Specific Contract, that member shall not be eligible to participate in any task related to that Specific Contract. The above stated eligibility criteria must be complied with for the entire duration of the AFWC 2018, and/or AFC 2023, including extension.*  - **Financing instrument applicable to the Contract:** [<reference>]  *< highlight here any potential problems of eligibility of the offers>*  **How the model should be completed by the Contracting Authority**   * **(also applies to Annexes 1 and 2)** * **insert** the information requested between the **<…>** * **choose** the optional text between **[…]** highlighted in grey when applicable or delete * **delete** all yellow instructions and the present text box   **The standard wording** can only be modified in exceptional cases and after prior consultation of INTPA.R.3, Audit & Control Unit. The present version is applicable as from publication date to audit contracts signed as of 01/12/2023. | |

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# Introduction

The present document and the Annexes listed in Section 8 are the terms of reference (‘ToR’) on which the Contracting Authority agrees to engage the Practitioner to perform a **systems** audit of the **design** and **operating effectiveness of the Internal Control System** and to report in connection with the financed contracts on the cover sheet.

These ToR will become an integral part of the contract concluded between the Contracting Authority and the Practitioner.

# Objectives and context

The **objective** of this audit is to enable the Practitioner to express an opinion on whether the Internal Control System set up and operated by the Reporting Entity for the purpose of managing risks to the achievement of the objectives of the financed contracts, was suitably designed and operated effectively in the period from [date] to [date].

The system audit engagement will be performed as [Choose either one or both a desk review or/and fieldwork at the location indicated in Annex 1.]

# Standards and Ethics

The Practitioner shall undertake this engagement in accordance with:

* The IFACInternational Framework for Assurance Engagements and International Standard on Assurance Engagements ('ISAE') 3000 for Assurance Engagements other than Audits or Reviews of Historical Financial Informationinsofar as these can be applied in the specific context of a systems audit intended to provide assurance that risks to the achievement of the objectives of the Project are properly managed and controlled.
* The IFAC Code of Ethics for Professional Accountants (developed and issued by IFAC's International Ethics Standards Board for Accountants (IESBA), which establishes fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards;
* The IFAC International Standards on Quality Control (ISQCs), which establish standards and provide guidance on an Auditor's system of quality control.

# Requirements for the Practitioner

## General Principles

By agreeing these ToR, the Practitioner confirms meeting at least one of the following conditions*:*

* The Practitioner is a member of a national accounting or auditing body or institution which in turn is member of the International Federation of Accountants (IFAC).
* The Practitioner is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Practitioner commits to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.
* The Practitioner is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (this applies to auditors and audit firms based in an EU member state)[[1]](#footnote-1).
* The Practitioner is registered as a statutory auditor in the public register of a public oversight body in a third country and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to auditors and audit firms based in a third country).

## Qualifications, Experience and Team Composition

### ***Qualifications and Experience***

The Practitioner will employ staff with appropriate professional qualifications and suitable experience with IFAC standards, in particular ISAE 3000 and with experience in auditing internal control systems of entities comparable in size and complexity to the Entity. In addition, the audit team should have:

[Here there is a possibility to set requirements for the team composition such as the number of experts and their category. If this is not the case, the Expenditure Verifier will propose an audit team that is composed of an appropriate mix of number and categories of auditors for the assignment.]

* Experience with audit of programmes and projects funded by national and/or international donors and institutions. It is desirable that the team leader and, where applicable, the fieldwork team i.e., either the audit manager (category 2) or the senior auditor (category 3) has experience with audits of EU funded External Relations actions.
* <Experience with audits in> [specify geographic zone, country]
* <Experience with audits of> [specify sector or instrument]
* <Sufficient knowledge of relevant laws, regulations and rules in the country concerned. This includes but is not limited to taxation, social security and labour regulations, accounting, and reporting.]
* <Fluency in> [specify language(s)]
* <A good knowledge of> [specify required knowledge]

### ***Team composition***

The table below provides the minimum qualification and experience required for each of the four categories of experts.

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| **Audit experts** | Relevant university degree or professional qualification | Member of a national or international accounting or auditing body or institution | Professional experience as a professional auditor or accountant | Managerial experience in audit practice and/or leading audit teams | Audit related services experience in beneficiary countries of EU external action |
| Category I\*  Audit partner | YES | YES | 15 years | 10 years | / |
| Category II  Audit manager | YES | YES | 10 years | 1 year | 3 years |
| Category III  Senior auditor | YES | / | 5 years | / | 1 year |
| Category IV  Assistant auditor | YES | / | 1 year | / | / |

\*In addition, the category I expert should be (1) a partner or another person in a position similar to that of a partner in the audit firm, and (2) authorised to certify accounts by the laws of the country in which the audit firm is registered.

**Technical experts**

Technical experts should be a qualified expert with at least 10 years of professional experience of which at least 2 years in the beneficiary countries of INTPA or NEAR.

### ***Curricula Vitae (CVs)***

The Practitioner will provide the Contracting Authority with CVs of the staff/experts involved in the engagement. The CVs will include appropriate details for the purpose of the evaluation of the offer on the relevant specific experience for this engagement and qualifying work carried out in the past.

# Scope

## Contracts and Financial Reports covered by these ToR

The Contract(s) subject to this engagement are indicated on the cover sheet and in Annex 1.

## Conditions for Eligibility

The conditions for eligibility are stipulated in the Contracts which are provided in Annex 1 (including riders).

Further documents (e.g., Financing Decisions, Financing Agreements, Framework Agreements) that the Practitioner might deem to be required for the purposes of this engagement, will be provided by the Contracting Authority on request.

The Practitioner will inform the Contracting Authority as soon as possible about any limitations in the scope of work they may find prior to or during the engagement.

The Practitioner will report any attempt by the Reporting Entity or its staff to restrict the scope of the verification, or any lack of co-operation on the part of the Reporting Entity or its staff. The Practitioner will consult the Contracting Authority on what action may be required, whether or how the engagement can be continued and whether changes in the verification scope or the timetable are necessary.

# Verification Process and Methodology

## Preparation of the Verification

The Practitioner shall contact the Reporting Entity as soon as possible (and no later than 7 calendar days) after the formal announcement by the Contracting Authority of the engagement to the Reporting Entity, so as to prepare the assignment and to agree on the timing for carrying out the engagement, notably with regard to fieldwork (if any). The Practitioner will then also confirm with the Reporting Entity the location(s) indicated in Annex 1 and ensure that relevant supporting documents as well as key staff will be available during the verification.

## Preparatory Meeting, Fieldwork, Desk Review

[The Contracting Authority foresees a preparatory meeting with the Practitioner which will be held Choose either one or both by conference call or at <name and address of the meeting place should be clearly stated>.]

The field work or desk review shall commence as soon as possible as defined in the engagement contract.

### ***Engagement Context***

The Practitioner’s procedures should include:

Obtaining an understanding of the engagement context.

The Practitioner should obtain a sufficient understanding of the engagement context including the Project, the Reporting Entity, the EC laws, and regulations which apply to the Project and the Contractual Conditions for the Project which are set out in Section 5 above (Scope). The Practitioner should pay specific attention to the Contractual Conditions relating to controls.

The Practitioner should identify controls which are relevant and appropriate to the Project and the Entity and to the preparation of the Reporting Entity's Financial Report for the Project. Controls should be suitable for managing and mitigating risks to the achievement of the objectives of the Project.

The Practitioner should consider qualitative as well as quantitative aspects, but this audit is not a performance audit and therefore the Practitioner should concentrate on financial internal controls rather than operational controls.

Controls and control areas which are relevant and appropriate to the Project and the Entity include but are not necessarily limited to key financial controls which are related to the revenue and expenditure categories in the financial report for the Project and the ones which are important for the management and control of the Project activities. The audit should cover an examination of the Reporting Entity's control environment and more specifically of:

* + Asset management (including procurement process and procedures). This concerns management and control of Project fixed assets such as vehicles, equipment etc).
  + Cash and bank management (treasury).
  + Accounting and financial reporting (including underlying transaction processing systems and financial ledgers)
  + Computerised information systems (IT)
  + Budgetary and expenditure control (including procurement process and procedures)
  + Human resources, payroll processes and time management

The understanding should be sufficient to identify and assess the main risks to achieving the Project’s objectives, including, but not limited to, the risk of error, irregularities, and fraud with regard to Project funding.

The understanding should be sufficient to design and perform further audit procedures.

* Applying materiality.

For the purpose of determining what is material weakness or deficiency in the Internal Control System, the Practitioner should assess whether the absence or inefficiency of a control or a series of controls results in a significant risk of material error, irregularity, or fraud in the use of the Project funds provided by the European Commission.

* Performing a risk assessment (Annex 2, point 1).
* Obtaining evidence regarding the design of controls (Annex 2, point 2.1).
* Performing tests of controls (Annex 2, point 2.2).
* Sampling and other means of selecting items for testing (Annex 2, point 2.3).
* Using the work of Internal Auditors (Annex 2, point 2.4).
* Obtaining written representations (Annex 2, point 2.5).

### ***Debriefing Memo and Closing Meeting***

At the end of the fieldwork or desk review, the Practitioner should prepare a debriefing memo, organise a closing meeting with the Reporting Entity in order to discuss the findings, obtain its initial comments and agree on additional information to be provided at a later date. The representative of the Contracting Authority, in charge of the audit, will be invited to attend the closing meeting.

### ***Complementary Letter***

The Practitioner may at any time during the engagement process, draw up a complementary letter to inform the Commission about facts and issues that are considered of particular interest and importance. Suspicions of fraud or irregularity should be reported immediately.

### ***Documentation and Verification Evidence***

The Practitioner should in accordance with ISAE 3000, prepare audit documentation and obtain sufficient appropriate audit evidence to support audit findings and to draw reasonable conclusions on which to base the audit opinion.

The Practitioner documents matters which are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance with ISAE 3000 and these ToR.

## Reporting

### ***Structure and Content of the Report***

The use of the System Audits Report template in Annex 3 of these ToR, is **compulsory**.

The report should be presented in <language>. [An executive summary of the report in <English/French> should be provided along with the report.]

The Practitioner will submit a draft report to the Contracting Authority within 21 calendar days of the conclusion of the fieldwork or desk review. After the authorisation to do so by the Contracting Authority, the Practitioner will submit the draft report to the Reporting Entity and ask for its comments to be received within 21 calendar days. The Contracting Authority may foresee a meeting with the Practitioner before authorising the transmission of the draft report to the Reporting Entity. The target date for the Contracting Authority's authorisation to transmit the draft report will be 21 calendar days after receiving the draft report.

7 calendar days after receiving the Reporting Entity's comments, the Practitioner will submit a pre-final report to the Contracting Authority for comment and approval. The Contracting Authority may request the Practitioner to carry out additional work, in which case a reporting deadline should be agreed on a case-by-case basis.

7 calendar days after receiving the Contracting Authority's comments, the Practitioner will submit the final report for the Contracting Authority's approval.

### ***Findings and Recommendations***

The factual findings shall be reported in accordance with the formats and criteria specified in the System Audits Report template (Annex 3). The description of findings will include the standard applied/criteria (e.g., art. xx of the General Conditions of the Contract), the facts that have been established, a description of the underlying/root causes and the impact.

The Practitioner’s attention is drawn specifically to findings of weaknesses or deficiencies in controls. A weakness or a deficiency in controls exists where a control or series of controls does not reasonably prevent or detect risks that could have an adverse impact on the objectives of the Financed Contract (See Annex 2 point 1, Risk Assessment).

The report shall also include in the relevant section possible non-financial systemic findings that the Practitioner identified detailing the nature of the findings and indicate if the errors identified are significant enough to be marked as possibly systemic.

### ***Debriefing Meeting with the Contracting Authority***

The Contracting Authority foresees a meeting with the Practitioner following receipt of the pre-final report. This meeting will be held Choose either one or both by conference call or at <name and address of the service and the meeting place should be clearly indicated>.]

### ***Access to supporting documents***

The Practitioner shall retain electronic copies of the supporting documents reviewed for all items included in the sample and provide them to the Contracting Authority upon request for a period of 5 years after the approval of the Final Audit Report.

### ***Audit Opinion***

Audit opinions can be unqualified, qualified, adverse or a disclaimer of opinion and should be formulated in accordance with the formats for the Independent Auditor's Report for a Systems Audit. These formats are included in the model report for a Systems Audit in Annex 3. The model report also includes guidance for the use of opinions.

# Other Matters

## Contradictory Procedures and Follow-Up

After receipt of the final audit report, the Commission will start a formal contradictory procedure with the Reporting Entity. The purpose of this procedure is for the Commission to discuss and agree with the Reporting Entity the corrective measures and actions which arise from the findings in the final report. The Practitioner may, where appropriate, be requested to provide clarifications or additional information with regard to the final audit report.

## Subcontracting

The Practitioner will not subcontract without prior written authorisation from the Contracting Authority.

# 8. Annexes

## Annex 1 Engagement Context – Key Information for a Systems Audit

## Annex 2 Systems Audit Procedures

## Annex 3 Systems Audit Report

1. *Directive 2006/43 of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253 EEC.* [↑](#footnote-ref-1)