

**Finance Audit: FSDMoc-SIDA 06102022**

**FSDMoc External Audit: TERMS OF REFERENCES**

**Introduction**

The Cooperativa FSDMoc-Financial Sector Deepening Mocambique, hereafter referred to as the “Cooperation partner” wishes to engage the services of an audit firm for the purpose of auditing the Short Term Support to FSDMoc, as stipulated in the agreement between the Cooperation partner and Sida. The audit shall be carried out in accordance with international audit standards (ISA) issued by IAASB<sup>1</sup>. In addition, an assignment according to International Standards on Related Services (ISRS) 4400 shall be carried out. The audit and the additional assignment shall be carried out by an external, independent and qualified auditor.

**I. Objectives and scope of the audit**

The objective is to audit the financial report for the period 2022 March 09<sup>th</sup> to 2022 December 31<sup>st</sup> as submitted to Sida and to express an audit opinion according to ISA, applying ISA 800/ISA 805, on whether the financial report of Short Term Support to FSDMoc is in accordance with the Cooperation partner’s accounting records and Sida’s requirements for financial reporting as stipulated in the agreement including appendices between Sida and Cooperation partner (Agreement).

**II. Additional assignment; according to agreed upon procedures ISRS 4400, review the following areas in accordance with the Terms of Reference below**

Mandatory procedures that must be included:

1. Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget<sup>2</sup>.
2. Observe and inspect whether the financial report provides information regarding:
  - a) Financial outcome per budget line (both incomes and costs) for the reporting period and columns for cumulative information regarding earlier periods under current agreement.
  - b) When applicable, compare if the opening fund balance<sup>3</sup> for the reporting period matches with what was stated as closing fund balance in the previous reporting period.

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<sup>1</sup> The International Auditing and Assurance Standards Board (IAASB)

<sup>2</sup> The budget is attached to the agreement with Sida as an annex and any updates should be supported by a written approval by Sida.

<sup>3</sup> I.e. funds remaining from disbursements made during previous reporting period/s

- c) A disclosure of exchange gains/losses. Inquire and confirm whether the disclosure includes the entire chain of currency exchange from Sida's disbursement to the handling of the project/programme within the organisation in local currency/ies, if applicable.
- d) Explanatory notes (such as, for instance, accounting principles applied for the financial report).
- e) Amount of funds that has been forwarded to implementing partners, when applicable.

**3. a)** Inquire and inspect with what frequency salary costs during the reporting period are debited to the project/programme.

*Choose a sample of three individuals for three different months and:*

- b) Inquire and inspect whether there are supporting documentation<sup>4</sup> for debited salary costs.
- c) Inquire and inspect whether actual time worked is documented and verified by a manager. Inquire and inspect within which frequency reconciliations between debited time and actual worked time is performed.
- d) Inspect whether the Cooperation partner comply with applicable tax legislation with regard to personal income taxes (PAYE)<sup>5</sup> and social security fees.

**4. a)** Inspect and confirm that the unspent fund balance (according to the financial report) at the end of the financial year is in line with information provided in the accounting system and/or bank account.

**b)** Applicable the final year: Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that shall be repaid to Sida.

### **Follow up of funds that are channelled to implementing partners**

Mandatory assignments that must be included if the Cooperation partner forward funds to implementing partners (IP's):

Choose a sample of a minimum of 30 % of the total of disbursed funds as well as 40 % of the number of IP's or a maximum of 10 IP's.

**2.1** Inspect and confirm whether the Cooperation partner has signed agreements with the selected IP's.

**2.2** Inspect and confirm whether the Cooperation partner, in all agreements entered with IP's, included the requirement to carry out annual audits. The requirement shall specify that these audits shall be carried out with application of ISA (reporting according to ISA

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<sup>4</sup> Debited salary costs should be verified by supporting documentation such as employment contracts.

<sup>5</sup> Pay As You Earn

800/805) and a separate assignment according to ISRS 4400 should be included for project/programme support. If agreements regarding core support are entered into with IP's, the audit shall be conducted in accordance with ISA 700 or National standards on auditing.

**2.3** Inquire and inspect whether the Cooperation partner has received financial reports and reportings from auditors from all IP's included in the selected sample:

**a)** Inquire and inspect whether the Cooperation partner has verified if reports from IP's are in line with the requirements in the Agreement.

**b)** Inquire and inspect whether the Cooperation partner has documented its assessment of the submitted financial reports and reporting from auditors including management responses and action plans from selected IP's.

**c)** Inquire and inspect whether the Cooperation partner has documented its follow-up actions based on the information provided in the financial reports and the reporting from the auditor of the selected IP's.

**d)** Inquire and inspect whether the Cooperation partner has reported substantial observations<sup>6</sup> from selected IP's audit reports in its communication with Sida. List observations<sup>7</sup> from IP's audit reports which have been part of this sample.

Confirm whether the Cooperation partner has followed-up grants in accordance with the requirements as described in Agreement. Obtain a list of all IP's that are affected by the decision and select 40 % or a maximum of 15 IP's. Inspect and confirm whether the selected IP's have been followed-up in accordance with annexed routines.

### **III. The reporting**

The reporting shall be signed by the responsible auditor (not just the audit firm<sup>8</sup>) and shall include the title of the responsible auditor.

#### *Reporting from the ISA assignment*

The reporting from the auditor shall include an independent auditor's report in accordance with the format in standard ISA 800/805 and the auditor's opinion shall be clearly stated. The financial report that has been the subject of the audit shall be attached to the audit report.

The reporting shall also include a Management letter that discloses all audit findings, as well as weaknesses identified during the audit process. The auditor shall make recommendations to address the identified findings and weaknesses. The recommendations shall be presented in priority order and with a risk classification.

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<sup>6</sup> Deemed substantial by the Cooperation partner.

<sup>7</sup> Observations included in Management Letters and if applicable, qualified audit reports.

<sup>8</sup> If the audit firm is obliged to sign, refer to relevant legislation. Sida still needs to know who has been responsible for the audit assignment.

Measures taken by the Cooperation partner to address weaknesses identified in previous audits shall also be presented in the Management Letter. If the previous audit did not have any findings or weaknesses to be followed-up on, a clarification of this must be disclosed in the audit reporting.

If the auditor assesses that no findings or weaknesses have been identified during the audit that would result in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

*Reporting from the ISRS 4400 assignment*

The additional assignment according to agreed upon procedures ISRS 4400 under section II, shall be reported separately in an “Agreed-upon procedures report”. Performed procedures should be described and the findings should be reported in accordance with the requirements in the International Standard on Related Services 4400.

When applicable, the sample size shall be stated in the report.

1. Represent a true and fair view of the financial position of the project.

#### **IV. Outputs**

The auditors will issue:

1. Compliance report.
2. Fund accountability statement; and
3. Management opinion

letter. Example layout is

provided in annex 1.

#### **V. Qualifications**

The audit firm will be internationally and nationally accredited and will employ fully qualified auditors/accountants with considerable audit experience in Mozambique.

#### **VI. Timing**

It is expected that the audit firms respond the RFP by 25<sup>th</sup> November 2022. The Audit will commence within 15 days after signature of the contract.

#### **SUBMISSION OF PROPOSALS**



Any questions or requests for clarification should be addressed to the following address: [fsdmoc@fsdmoc.org.mz](mailto:fsdmoc@fsdmoc.org.mz) by Friday, November 11, 2022, at 17:00 hours (CAT).

Proposals must be sent by email to the FSDMoç via the email address: [fsdmoc@fsdmoc.org.mz](mailto:fsdmoc@fsdmoc.org.mz) with the subject “**FSDMOÇ FINANCIAL AUDIT - SIDA**”, until Friday, November 25, 2022, at 17:00 hours (CAT).