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AUSLANDSPROJEKTE

Guide for an external, independent audit

Within the scope of the BMZ funding title for private executing agencies Version October 2021

1. General

The guidelines of the Federal Ministry for Economic Cooperation and Development (BMZ)'s "private executing agency" funding title, provides the opportunity to commissioning an independent audit for funded projects and programmes, documentation of funding expenditures in the project country (see funding guidelines, especially sections 6.2, special provision No. 1 re 6.2, Attachment IV). The costs can be charged to the project if this has been applied for.

The purpose of this guide is to clarify important aspects one commissioning, conduct and documentation of an audit under the funding title for private executing agencies.

Following terms are used, in some cases as synonyms:

- (External, independent) auditor, auditing firm, Chartered Accountant → hereinafter referred to as the **auditor**.
- **Audit** → generally refers to the examination of processes, activities, financial results and internal control systems. This involves fulfilling/adhering to defined requirements and standards.
- **Audit report**, **audit certificate**→ the report prepared by the auditor.
- "Pr**ivate German executing agency**" is the term used for a not-for-profit organisation based in Germany that has been provided with project financing by the BMZ under the budget item "private executing agencies".
- "**Local project country**" stands for the organisation that is based in the project country and that is responsible for implementing the project in the project region.

The utilisation of funds in a project can be substantiated using the following two possibilities:

- ➔ By presenting a financial report for revenues and for expenditure eligible under the grant fund ing with a **receipt list** (in order to the positions in the budget and chronologically within this). Original receipts ought to be submitted promptly.
- ➔ By presenting the financial report for revenues and expenditure eligible under the grant fund ing with an **original audit certificate** (dated and signed by the external auditor) based on an independent, officially recognised eternal audit and **a receipt list** (in order to the positions in the budget and chronologically within this). This possibility must be considered when original receipts from the partner country are not permitted to leave the country.

However, it is possible to finalise the accounts for each project with an audit certificate submitted with a receipt list. The basic requirement for both possibilities is an impeccable accounting by the project partner on site.

Under certain circumstances, it may be necessary that, in addition to the certificate by the independent auditor and the receipt list, **receipts and documents** must be submitted by the local project part such receipts and documents must first be requested in scanned form. However, the **requirement to submit** documents can be extended to include these documents in original form. In case these documents may not be allowed to leave the country, an attested copy must be submitted instead.

Revenues, expenditure or transfers effected in or from Germany do not constitute part of the audit but are to be substantiated by the private executing agency itself.

The following section gives an overview of the procedure in the event of an audit by an external audi tor.

2. Selection of external auditor

Following points need to be considered when selecting an external auditor:

- ➔ The external auditor must be **independent** (especially independent from the local project partner and the German private executing agency). They should work to an internationally recognised standard.
- ➔ If an independent audit is to be carried out for the project, the auditor is to be **chosen by the German private executing agency and the local project partner together.**
- ➔ The auditor's **valid qualification** (at the time at which the audit certificate is issued) as a rec ognised, independent auditor must be **confirmed** by the German embassy or a relevant, rec ognised institution in the partner country (e.g. a chamber of commerce or national association of auditors). The embassy's confirmation, a qualification certificate or a print-out of the regis try entry must be submitted with the audit certificate.
- ➔ The external auditor is to be selected on a **competitive basis**; i.e. contract award regulations are to be complied with.
- ➔ In the interests of **countering corruption**, it is only permitted to work with the same auditor **for a limited period of time** (max. 5 to 6 years).

3. Contract and audit preperation

After consulting with the German private executing agency, the **local project partner** enters into a **contract** with the external auditor. The contract regulates the following points:

- Subject of audit (project)
- Period to be audited
- Place of audit
- Audit costs
- Timing line (the audit should be scheduled so that it is possible for the German private executing agency to issue the supporting documentation in time)
- Duties of the external auditor and of the local project partner

- Scope of audit

Once work on the external audit has commenced, all project-relevant documentation is to be made available to the auditor, e.g.:

- Project application
- Project agreement (including budget)
- Any changes to the budget
- Funding guidelines (including BNBest-P/private executing agencies and BMZ contract award guidelines)
- Guidelines for external audits of projects.
- All project-relevant receipts (regarding revenues, expenditure, transfer of funds, exchange, etc.)
- All project-relevant contracts (personnel and service contracts, rental agreements, construction contracts, etc.)
- All project-relevant contract award documentation (including notes on contracts awarded to service providers)
- Further project-relevant documents requested in the course of the external audit.

If independent auditors are conducting the audit, they are required to prepare an audit certificate using the **template in Attachment IV of the funding guidelines**.
The contract should be closed within the project term. As a rule, the independent auditor conducts the audit and prepares the audit certificate after the project has come to an end so that all documents can be accessed.

4. Scope of external audit

The external audit should include the following auditing and control measures.

- Verifying accounting records for **correctness and completeness**.
- Verifying the financial report in which all project-related revenues and expenditure must be shown and for which it must be confirmed that **receipts are provided for all revenues and expenditure**.
- Verifying how the provided project funds have been managed. This includes:
  - **Project funds** transferred to the project partner in the current budget year or during the project term
  - **Interest earned** in the current budget year or during the project term from project funds transferred to the project partner
  - Other **revenues from the project activity**.
- Verifying to what extent the funds have been **used appropriately** for the purpose of carrying out the planned project objectives and activities.
- Verifying the **cost-effectiveness of expenditure** with regard to financial resources (to be used economically and as effectively as possible).
- Verifying the **personnel costs and social security contributions** to ensure that they are in line with local standards, legal in the respective project country and, above all, that they comply with contracts and that the contributions required by law are being withheld.

- Verifying that the cost plan is being adhered to by means of a **comparison of objectives and effects** (based on the most recent valid budget).
- Verifying the **economic use of project equipment**.
- Verifying the procured inventory, where it is being held and whether it has been/is being used appropriately for the purpose of carrying out the planned project objectives and activities.
- Verifying and confirming that project-relevant documentation is complete and correct.
- Verifying that all agreements fundamental to the project are being adhered to (contracts, German private executing agency guidelines, BMZ funding requirements, BNBest-P/private executing agencies and BMZ contract award guidelines).

5. Audit certificate

The report of the external audit must include the following:

- Presentation of the **audit assignment and scope** with extensive comments on the audit findings. The auditor must also state **which documents were used for the audit** of appropriate use of funds and compliance within the project term.
- **Recommendations** in case of complaints.
- Comment on **how audit observations from previous years were followed up on**, if required
- **Budget (most recent version), with the structure used for the financial report, provided for the final report** and presented like the attached **template** to this guide (see page 7-8). The comparison of planned and actual expenditure is shown in the **currency in which the expenditure was incurred**. The audit will **not convert these amounts to Euros**.
- **Deviations** of actual expenditure from the planned expenditure in the most recent budget **that exceed 30% of individual budget items,** (main items in the budget), must be explained and reasoned.
- **Deviations** of actual expenditure from the planned expenditure in the current budget **that exceed 30% of individual budget sub-categories**, reasons must be given.
- The final audit option in the audit certificate must state the following (**minimum requirement**), which is to be worded clearly by the external auditor and adapted if appropriate:

  "We hereby certify that we have audited the statement of accounts of *[name of project partner in developing country]* regarding the financing of the project *[name]*. Our audit was carried out on the basis of the following requirements pertaining to the use of funding: *[List of relevant contracts and documents].* To this end, we have inspected the books and receipts. Based on our audit, we confirm that:"

  Following this, the audit should provide specific statements on the following questions:

  1. To what extent has all income and expenditure been properly documented by means of receipts?
  2. To what extent has documented expenditure complied with its application and project approval and to what extent is it in keeping with the appointed purpose and the most recent budget? Have any deviations from the most recent budget been explained separately?

3. To what extent has documented income, that is accounted for as contributions made by the local project partner, the target group and/or other agencies in the project country been specified correctly and its origin explained in accordance with specifications?
4. To what extent were the donor's conditions that were specified in the project agreement met? What response was there to these conditions? Which of these conditions were not adhered to and were reasons given for this?
5. Which special aspects – positive or negative – should be mentioned with regard to this project?

- The audit certificate should draw a clear conclusion regarding **adherence to the binding arrangements made in the project agreement**.

The following must be adhered to in order to ensure the quality of the audit certificate:

The **minimum requirements** for audit certificates specified in the BMZ funding guidelines may **not merely be** reproduced **pro forma** in the auditor's reports. As audit certificates replace receipts as proof of proper use of funds, the auditor is **required** (among other things) to provide information in the audit certificate about any **special aspects** (relating to project in question). **Specific statements on the audit** conducted on the project in question (i.e. which revenues and expenditure were exam-ined, whether planned project activities were implemented) and on the individual audit findings must be made. If there were no findings, this must also be **explicitly** mentioned in the report.

Audit certificates can be submitted in German, English, French and Spanish. If the audit certificate is not provided in either English or German, the **key findings** (especially audit findings, including com-plaints and recommendations) **and the final audit opinion** must be **translated into German**. This translation can be included in the **narrative report on the fund utilisation report together with the** required **evaluation of the audit certificate**. Any audit certificate in a language other than the afore-mentioned must be translated in its entirety into German or English.

6. Audit costs

The incurred **external audit costs** to manage the grant can be financed through project funds provided that this has been applied for **and approved** by donor Engagement Global beforehand.

The **auditor is paid based on services rendered**. The expenditure incurred for this (based on approved project time) can be charged to the project.

7. Control rights and retention requirements

Regardless of the substantiation form, the German private executing agency and Engagement Global, BMZ and the Federal Audit Office have the right to conduct an unlimited **on-site audit** at any time.

All **original receipts, documents and statements of account** in paper or electronic form are to be kept in a safe place for **at least five years after the fund utilization report has been submitted** – or in keeping with local retention requirements if these specify a longer period.

8. Obligations for local project partner/information

In order to ensure that the external auditor can conduct an adequate audit, the project partner must ensure basic conditions. Here, it should be noted that any infringements and/or failure to adhere to deadlines can lead to the cancellation of ongoing project agreements or, at the very least, to consid-erable delays in making project funds available.

- In the event of an external audit, the local project partner is obliged to **provide the auditor with all necessary documents and information**.
- The local project partner is required to organise its project management, financial account-ing and commissioning of the external audit in such a way that the **deadlines for submitting the fund utilisation report to Engagement Global can be met**.

Attachment: Requirements for having a project audited

The German private executing agency is required to ensure that both the choice of auditor and the audit report (original version) submitted to the donor meet the quality requirements. Notes on the points listed in the Attachment and the comparison of planned and actual expenditure must – adapted to the project – be an integral part of the audit certificate.

The following is an excerpt from the guidelines for the funding of key development projects by private German executing agencies (Chapter 2302 Title 687 76) regarding the minimum audit re-quirements and, following this, the "Quantitative documentary proof" template.

"**IV. Project audit**

1. In drawing up their audit certificate, the recognized, independent auditor shall follow the structure used for the financial report provided for the fund utilization report. Here, the au-ditors shall explain the auditing mandate they were given and shall give an account of the documents used for the audit of proper use of funds and compliance with the terms of fund-ing. The key statements (in particular the audit findings) and the final audit certificate (see Point 3) must, however, be translated into German (uncertified translation). This translation can be included in the narrative report on the fund utilization report (Point 6) together with the evaluation of the audit certificate.
2. If the difference between budgeted figures and actual figures is more than 30%, this must be justified separately, unless prior authorization was obtained from the BMZ.
3. The final audit certificate must state the following (minimum requirement):

   "We hereby certify that we have audited the statement of accounts of [name of project part-ner in developing country] regarding the financing of the project [name]. Our audit was car-ried out on the basis of the following requirements pertaining to the use of funding: [List of relevant contracts and documents]. To this end, we have inspected the books and receipts. Based on our audit, we confirm that:

   1. All income and expenditure has been properly documented by means of receipts
   2. The documented expenditure complied with its application and project approval and was

in keeping with the appointed purpose and the most recent budget. Any deviations from the budget have been explained separately.

3. Documented income that is accounted for as contributions made by the project partner, the target group and/or other agencies in the project country has been specified correctly and its origin explained in accordance with specifications.
4. The donor's conditions that were specified in the project agreement were met (were not met in the following points).
5. Special remarks."

Quantitative documentary proof

Statement of application of funds

BMZ/Engagement Global project number: Pxxxx

Statement of accounts 20xx to 20xx

Financial statement as at

I.	**Expenditure**	**Appropriation according to Financing Plan of** ..... [date]	**Actual expenditure**	**Deviation**
		in local currency	in local currency	– as a % –
1	**for investments**			
1.1				
1.2				
1.3				
1.4				
2	**for operating expenditure**			
2.1				
2.2				
2.3				
2.4				
3	**for personnel**			
3.1				
3.2				
3.3				
3.4				
4	**for evaluation or study**			
Project expenditure				

5	**Reserve funds** (appropriations only)		———	
Total expenditure				
II.	**Receipts**	**Budgeted receipts according to Financing Plan of** ..... [date]	**Actual receipts**	**Deviation**
		–in local currency –	–in local currency –	– as a % –
1	BMZ grant and financial contribution from private executing organisation			
2	Contribution from project- executing agency, target group and/or other source in developing country			
3	Additional resources (e.g. interest, sales revenue)			
Total receipts				

III.	**Financial statement as at**	
		– in local currency –
	Total receipts	
	Total expenditure	./.
	Balance	
	Overspending[1]	

It is confirmed that no funds were available for the financing of the project other than the receipts detailed above. It is also confirmed that all expenditure was necessary, that funds were utilised efficiently and economically and that the information given conforms with the books and vouchers.

_____ _____

(Place) (Date)

_____

(Signature and stamp)