**Assistance for an external, independent audit**

**under the BMZ funding title for private executing agencies**

**from Engagement Global - bengo**

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**1. General**

The guidelines of the BMZ funding title "Private executing agencies" provides for the possibility of an external, independent audit of funded projects to verify their use in the project country (cf. funding regulations, esp. sections 6.2, special provision no. 1 to 6.2, Annex IV). The costs of this can be charged to the project if this was requested.

The present handbook serves as a guide to important aspects regarding the commissioning, implementation and documentation of an audit within the scope of the funding title Private Partner.

The following terms are common in this context, some of which are used synonymously:

* (external, independent) auditor, accountant, auditing company, chartered Accountant 🡪 hereinafter referred to as the **Auditing Authority**.
* **Audit 🡪** in general, this refers to the auditing of processes and activities, results and internal control systems. This concerns the fulfilment of or compliance with defined requirements and standards.
* **Audit report, attestation** 🡪 the report prepared by the auditing body.
* "**private German partner**" is the designation for the non-profit organization with its base in Germany, which has received BMZ funding for the implementation of a project under the budget heading "Private operators".
* "**local project-executing agency**" stands for the organization which has its headquarters in the project country and is responsible for the implementation of the project in the project region.

In principle, the proof of the use of funds in a project can be based on the following two possibilities:

* On presentation of a statement of revenue and eligible expenditure, accompanied by a list of **supporting documents** (in chronological order of the items in the budget). Original supporting documents must be submitted promptly.
* On presentation of proof in figures of income and eligible expenditure, in conjunction with an external **audit report** drawn up by an independent, **officially recognized** (dated and signed by the external audit body) and a list of **supporting documents** (arranged according to and chronologically within the items of the financing plan). This case must usually be taken into account if original documents from the partner country may not be exported. However, it is possible to account each project with a certificate in conjunction with a list of documents. Basic condition for both options are based on proper accounting at the promoter's premises.

In addition to the certificate of the independent auditor and the list of supporting documents, it may be necessary for the local project partner to provide **receipts and documents**. Usually, such receipts and documents are first requested as a scan. However, the obligation to produce these documents may be extended so that the original

can be requested. In the event that they are subject to an export ban, they must be a certified copy submitted.

Income, expenditure or transfers to or from Germany are not part of the audit, but must be proven by the private sponsor itself.

The procedure in the case of an audit by an external audit body is described below.

**2. selection of the external audit body**

There are a number of factors to be considered when selecting the external auditor:

* The external auditor must be **independent** (especially from the local project executing agency and the German private sponsor). It should be in accordance with an internationally recognized Standard.
* If project accounting is to be carried out by an independent auditor, the executing agency will be jointly selected **from the German private executing agency and local partner**.
* The **qualification** valid at the time of writing the certificate as a recognized independent auditor must be confirmed by the German embassy or a competent **recognized** institution in the partner country (e.g. a chamber of commerce or national association of auditors). The confirmation from the embassy, a certificate of qualification or a printout of the register entry must be submitted with the audit certificate.
* The selection of the external audit body must always be subject to **competition**, i.e. award rules must be observed.
* In terms of corruption control, cooperation with the same auditing body should be **limited to a certain period of time** (max. 5 to 6 years).

**3. contract and preparation of the audit**

The **local project-executing agency**, after consultation with the German private executing agency, concludes a

Contract with the external audit body. The contract regulates the following points:

* Object of the audit (project)
* Period to be examined
* place of testing
* Costs of the audit
* Time frame of the examination

(it should be noted that the test should be scheduled so as to ensure that the test can be completed in time of the respective proof by the German private institution is possible)

* Obligations of the external audit body and the local project promoter
* Scope of the audit

At the start of operations, **all documents relevant** to the project must be submitted to the external audit body

to make available, for example:

* Project proposal
* Project agreement including financing plan
* possible changes to the financing plan
* Funding guidelines, including the BNBest-P/ private sponsors and the BMZ's procurement guidelines
* the guidelines for project accounting via an external audit.
* all documents relevant to the project (on income, expenditure, transfers of funds, exchanges, etc.)
* all project-relevant contracts (personnel and fee contracts, rental contracts, construction contracts, etc.)
* all project-relevant award documents, including award notes
* other documents relevant to the project requested during the external audit.

If independent auditors carry out the audit, they must be obliged to provide their Certificate of attestation in accordance with the prescribed model in Annex IV of the funding guidelines.

The **contract** should generally be concluded **during the project period**. The **audit and preparation of the certificate** by the independent auditing body is usually carried out **after the end of the project**, so that access to all documents is possible.

**4. scope of the external audit**

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

* Checking the accounting records for **regularity and completeness**.
* Checking the financial report, which must show all income and expenditure relating to the project and confirm that **supporting documents exist for all income and expenditure**.
* Checking the management of the project funds made available. This includes:
	+ the **project funds** transferred to the promoter during the current financial year or during the project period
	+ any **interest** earned during the financial year or the duration of the project on the amounts paid to the promoter
	+ other **income** generated **through the project activities** for the partner
* verification of the extent to which the financial resources are **in line with the planned project objectives** and measures
* Verification of the **economic efficiency** of expenditure (to be used sparingly and financial resources to be used as effectively as possible.)
* Checking **personnel costs and social security contributions** with regard to local custom, the laws in the respective project country, in particular compliance with the contracts and legal payment of the corresponding funds.
* Verification of compliance with the cost plan through **target/actual comparison** (on the basis of the last valid financing plan).
* Verification of the **economic use of the project equipment**.
* Control of the procured **inventory**, its **whereabouts and its appropriate use**.
* Verification and confirmation of the completeness & correctness of project-relevant documents.
* Verification of **compliance with all agreements** (contracts, Guidelines of the German private executing agency, funding guidelines of the Federal Ministry for Economic Cooperation and Development (BMZ), the BNBest-P/ private executing agencies and the Procurement Guidelines of the BMZ).

**5. attestation**

The external audit report must contain the following elements:

* Description of the **audit mandate and scope** with detailed comments on the results of the test. The auditor must also list and present the results of the audit, **which documents form the basis of the audit** of the appropriate use of funds and of compliance with the project duration.
* Naming of **recommendations** if there were objections.
* Where appropriate, comment on the **follow-up of audit observations from previous years**.
* **Financing plan in the latest version, structured according to the numerical evidence of the use of funds** and presented in the same way as the **model** in the Appendix of this handbook (see page 7-8). The comparison of planned and actual expenditure is made **in the currency in which the expenditure was incurred**. The audit does **not** result in the amounts being **converted into Euro**.
* In the event of **deviations** between the actual expenditure (actual) and the planned expenditure according to the accounts, the latest financing plan (target) of **more than 30 %** **of the individual estimates** (upper positions in financing plan), these deviations must be explained and justified separately.
* In the event of **deviations** between the actual expenditure and the planned expenditure according to the most recent financing plan (target) for the **sub-items of more than 30 %,** this must be justified.
* The final audit opinion of the certificate must contain the following content (**minimum requirement**), which must be clearly formulated and, if necessary, adapted by the external audit body:

"We hereby confirm that we have audited the accounts of the [*name of the promoter in the developing country*] for the financing of the project [*name*] on the basis of the following conditions of use: [*List of the relevant orders and documents*]. We have inspected the books and documents for this purpose. Our audit led to the following

Result: ...".

Subsequently, the audit should provide concrete statements on the following questions:

1. To what extent is the income and expenditure properly substantiated by supporting documents?

2. To what extent were the expenditure substantiated in accordance with the application and the approval, and

correspond to the purpose of the application and the final budget? Are any deviations from the latest financing plan explained in your own explanations depicted?

3. To what extent are the proven revenues, which are accounted for as own contributions by the local project-executing agency, the target group and/or other bodies in the project country, in their height has been correctly displayed and their origin explained in accordance with the specifications?

4. To what extent were the conditions imposed by the donor in the project agreement noticed? How was the response to the requirements? In which points were these conditions ignored and are reasons for non-compliance given?

5. what are the positive or negative features of the project that need to be mentioned?

- The attestation should provide a clear conclusion regarding the **compliance with the conditions set out in the project binding agreements.**

**In order to ensure the quality of the attestation, the following must be observed:**

The **minimum requirements** for auditor's certificates laid down in the BMZ funding guidelines must not merely reproduced pro forma in the auditors' reports.

Since the audit certificates replace the supporting documents as evidence of the appropriate use of funds, the audit authority **obligates** in the audit certificate to take into account, among other things, the **special features** (of the respective project). **Concrete statements** must be made about the project in question, audit (what income and expenditure has been audited, have planned project measures been implemented) and on the individual audit findings. If no findings have been taken, this must also be **explicitly** mentioned in the report.

Certificates can be submitted in English, French, German and Spanish. If the attestation is neither in English nor in German, the **core statements** (especially audit findings, including objections and recommendations) and the final audit opinion in German must be translated. This translation can be translated with the required **evaluation of the attestation** **in the factual report of the where-used list** can be integrated. A where-used list that is integrated in a different report than the one mentioned above languages other than those mentioned above must be completely translated into German or English.

**6. Costs of the audit**

The **external audit costs** incurred in connection with the management of the grant may be financed from project funds, provided that a **prior application** has been submitted to **and approved** by the sponsor, Engagement Global.

The auditing body will be paid **according to services rendered**. The fees for this (after approved project time) can be billed via the project.

**7. Rights of control and retention obligations**

Irrespective of the form of evidence, the German private executing agency, as well as Engagement Global, BMZ, and the Federal Audit Office, have the right to carry out **on-site inspections**.

All **original receipts, documents and statements** in paper or electronic form must be attached to a safe place for **at least five years after submission** of the proof of use, or - if stricter - the provisions of national law regarding storage periods apply.

**8. Duties of the local project executing agency / instructions**

In order to allow for an adequate audit by the external auditor, the promoter must establish basic conditions. It should be noted here that infringements and/or failure to comply with deadlines for terminating ongoing project contracts or at least may lead to significant delays in the provision of project funds.

* The local promoter is required to have recourse to an external audit, to provide the latter with **all necessary documents or to provide all necessary information.**
* The local project-executing agency must organize its project administration and financial accounting as well as the commissioning of the external audit in such a way that **the deadlines for the submission of proof of use can be maintained at Engagement Global.**

**Annex: Requirements for project accounting via audit/chartered accountant**

The German private sponsor is obliged to ensure that both the selection of the auditing body and the audit report submitted to the funding agency in the original version meets the quality requirements. Comments on the points listed in the Annex and the comparison of planned and actual expenditure must be – adjusted to the project - be an integral part of the attestation.

The following is an excerpt from the guidelines for the promotion of projects of developmental importance by private German executing agencies (Chapter 2302, Title 687 76) on the minimum requirements for auditing and

followed by the pattern of the numerical representation "Quantitative documentary proof".

**"IV. Settlement of projects via auditors**

1. The chartered accountant has issued his audit certificate in accordance with the numerical proof of the use. In doing so, he must explain which inspection order he has received and which documents form the basis of the inspection and are in compliance with the conditions of the license. The core statements (above all audit findings) and the final audit certificate (see point 3) must be translated into German (uncertified). This translation can be included with the evaluation of the certificate in the factual report of the proof of use (point 6) can be integrated.
2. If the actual value deviates from the target by more than 30 %, this must be justified separately, if the consent of the BMZ has not been obtained in advance.
3. The final examination certificate must have the following content (minimum requirement):

"We hereby confirm that we have audited the accounts of (name of the project-executing agency in the developing country) for the financing of the project (name) on the basis of the following conditions of use: (list of the relevant orders and documents). For this purpose we have inspected the books and documents. Our audit led to the following result:

1. income and expenditure have been duly substantiated by supporting documents.

2. the expenditure substantiated was carried out in accordance with the application and approval and corresponds to the purpose of the application and the financing plan. Any deviations from the

 Financing plan are presented in separate notes.

3. The proven income, which is to be considered as own contributions of the project-executing agency, the target group and/or other bodies in the project country are correct in their amount and their origin has been explained according to the specifications.

4. the conditions imposed by the donor in the project agreement were (in the following points not) followed.

5. special features".

**Quantitative documentary proof**

Statement of application of funds

BMZ/Engagement Global project number

**Statement of accounts for 20 to 20**

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 |  |  |  |
| **5 for evaluation or study** |  |  |  |
| Project expenditure |  |  |  |
| **6 Reserve funds** (appropriations only) |  | ——— |  |
| **Total expenditure** |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **II. Receipts** | **Budgeted receipts according to Financing Plan of [date]** | **Actual receipts** | **Deviation** |
|  | –inlocal currency – | –inlocal currency – | – as a % – |
| 1 BMZ grant and financial contribution from private executing organization |  |  |  |
| 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\* |  |  |

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 utilized efficiently and economically and that the information given conforms with the books and vouchers.

……………. ……………………….. ……………………………………

(Place) (Date) (Signature and stamp)

\* Overspending: Actua total expenditure – appropriation total expenditure according to Financing Plan