

AUDIT OF EXTERNAL OPERATIONS

TERMS OF REFERENCE FOR

A FINANCIAL AUDIT OF

[Evaluation of Cultural Policies and EU funded programs as Promoters of Cultural Diversity and Intercultural Dialogue in the Balkans/Southeast Europe (SEE)]

Entity subject to Audit:	[Performing Arts Center MULTIMEDIA]
Country:	[Macedonia, Bosnia and Herzegovina and Austria]
Ref N°/ date of tender procedure:	[11.07.2012]
Starting date of the Audit:	[<u>Indicative</u> starting date is 01.08.2012]
Ending date of the Audit:	[<u>Indicative</u> ending date is May 2014. The <u>estimated</u> date of receipt of the final report is June 2014]

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1 Introduction

The following are the terms of reference ('ToR') on which Performing Arts Center MULTIMEDIA agrees to engage the Auditor to perform a **financial** audit and to report in connection with the project below.

2 Objectives

The **objectives** of this audit are to enable the Auditor to express an opinion on whether:

- the Financial Report presents fairly, in all material respects, the actual expenditure incurred and the revenue received for the Project for the period from May 2012 to May 2014 in conformity with the applicable Contractual Conditions; and
- the Project funds provided by the Performing Arts Center MULTIMEDIA have, in all material respects, been used in conformity with the applicable Contractual Conditions.

Findings (e.g. exceptions, errors, misstatements) and conclusions should be reported in Section 5 (Specific Matters) and Section 6 (Expert Work) of the audit report.

3 Standards and Guidance

The Auditor who performs this financial audit is governed by:

- The IFAC *International Framework for Assurance Engagements* and *International Standards on Auditing* ('ISAs') for *Audits of Historical Financial Information* insofar as these can be applied in the specific context of a contractual compliance audit;
- The IFAC *Code of Ethics for Professional Accountants* (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.

4 Requirements for the Auditor

4.1 General Principles

By agreeing these ToR the Auditor confirms that he/she meets at least one of the following conditions:

- The Auditor and/or the firm 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 Auditor and/or the firm is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits

him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.

- The Auditor and/or the firm 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.
- The Auditor and/or the firm 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).

4.2 Qualifications, Experience and Team Composition

Qualifications and Experience

The Auditor will employ staff with appropriate professional qualifications and suitable experience with IFAC standards, in particular International Standards on Auditing and with experience in auditing financial information of entities comparable in size and complexity to the Entity. In addition the audit team as whole should have:

- Experience with audits of development aid programmes and projects funded by national and/or international donors and institutions. It is desirable that the leader of 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 aid actions.
- Experience with audits in Macedonia
- Experience with audits of projects supported by Culture 2009-2013 Programme
- Sufficient knowledge of relevant laws, regulations and rules in Macedonia. This includes but is not limited to taxation, social security and labour regulations, accounting and reporting.
- Fluency in English language

Team composition

The team of auditors required for this engagement will be composed of a category 1 auditor who has the ultimate responsibility for the audit and an audit team which is composed of an appropriate mix of category 2 – 4 auditors and who have the qualifications and experience as set out below. It is the responsibility of the Auditor to compose and propose an audit team which has an appropriate mix of auditors for this engagement. The Performing Arts Center MULTIMEDIA distinguishes 4 categories of auditors.

Category 1 – Audit Partner

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.

An audit partner should be a highly qualified expert with a relevant professional qualification and assuming or having assumed senior and managerial responsibilities in public audit practice.

He/she should be a member of a national accounting or auditing body or institution. He/she must have at least 12 years of professional experience as a professional Auditor or accountant in public audit practice. Experience with working with the recipient countries of Community external aid will also be taken into account.

An audit partner, or another person in a position similar to that of a partner, is the person of the audit firm who is responsible for the audit and its performance, and for the report that is issued on behalf of the firm. He/she has the appropriate authority from a professional, legal or regulatory body and is authorized to certify accounts by the laws of the country in which the audit firm is registered.

Category 2 - Audit Manager

Audit managers should be qualified experts with a relevant university degree or professional qualification. They should have at least 6 years experience as a professional auditor or accountant in public audit practice including relevant managerial experience of leading audit teams.

Category 3 – Senior Auditor

Senior auditors should be qualified experts with a relevant university degree or professional qualification and at least 3 years professional experience in public audit practice.

Category 4 – Assistant Auditor

Assistant auditors should have a relevant university degree and at least 6 months professional experience in public audit practice.

Curricula Vitae (' CVs')

The Auditor will provide Performing Arts Center MULTIMEDIA with CV's of the partner or other person in the audit firm who is responsible for the audit and for signing the report together with the CVs of the audit managers, senior auditors and assistant auditors proposed as part of the audit team. CVs will include appropriate details on the type of audits carried out by the staff indicating capability and capacity to undertake the audit as well as details on relevant specific experience.

Performing Arts Center MULTIMEDIA will examine the CV's before it signs an order form or other applicable contractual document for this engagement and will reject them if they are not considered suitable for the requirements of the engagement.

5 Scope

This audit will be performed on the basis of Article [specify the article of the Contract in which the audit is foreseen].

The audit will be performed in Skopje. The Auditor should confirm the location(s) for the audit with the Entity prior to the start of the audit fieldwork and ensure that relevant supporting documents as well as key staff will be available during the audit. The Auditor should take into account that Performing Arts Center MULTIMEDIA normally requires

meetings to prepare the audit and to discuss the draft report and that this may involve additional travelling.

The audit scope covers several contracts, therefore, a separate and specific audit report should in principle be issued for each audited contract.

The Contractual Conditions for this Project are set out in:

- The Financing Agreement signed by European Commission and Performing Arts Center MULTIMEDIA including Annex I General Conditions and Annex II Technical and Administrative Provisions;
- The grant contract signed by Performing Arts Center MULTIMEDIA and Akcija including Annex II General Conditions and the Technical and Administrative Provisions;
- The grant contract signed by Performing Arts Center MULTIMEDIA and Kulturdocumentation including Annex II General Conditions and the Technical and Administrative Provisions;

The **Project subject to audit** covers all activities/actions set out in Contractual Conditions described above.

The **subject of the audit** is the **expenditure and revenue as stated in the Financial Report of the Project** for the period from May 2012 to May 2014.

The audit will also include an **evaluation of the technical criteria and specifications** for the Project as set out at Section 6.2 below (Planning and Fieldwork) and to use the work of an Expert for this purpose.

The Auditor will inform Performing Arts Center MULTIMEDIA as soon as possible about any **limitations in the scope** of work he/she may find prior to or during the audit.

The Auditor will report any attempt by the Entity to restrict the scope of the audit, or any lack of co-operation on the part of the Entity. The Auditor will consult Performing Arts Center MULTIMEDIA on what action may be required, whether or how the audit can be continued and whether changes in the audit scope or the timetable are necessary.

6 Audit Procedures

The Auditor should perform the audit in accordance with the **financial audit procedures** set out in **Annex 2** and which cover audit documentation and evidence, planning, fieldwork and reporting. Annex 2 includes audit procedures which the Auditor should apply and procedures which the Auditor may opt to use. The Auditor's attention is drawn to the **specific** aspects set out in Sections 6.1 to 6.3 below.

The Auditor should exercise due professional care and judgment and determine the nature, timing and extent of audit procedures to fit the objectives, scope and context of the audit. The *'Guidelines for Auditors'* provide further guidance for the audit process and procedures.

6.1 Audit Documentation and Evidence

The Auditor should in accordance with ISAs, 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 Auditor uses professional judgment to determine whether audit evidence is sufficient and appropriate taking into account the Contractual Conditions.

6.2 Planning and Fieldwork

Start of the audit

The date of signature of Performing Arts Center MULTIMEDIA's order form or other applicable contractual document for the audit is the official starting date of the audit.

The Auditor should contact the Entity as soon as possible to prepare the audit and to agree a date to start the fieldwork but not before the audit has been formally announced by Performing Arts Center MULTIMEDIA. This should not be later than 7 calendar days from the starting date of the audit.

Preparatory meeting with Performing Arts Center MULTIMEDIA

The Performing Arts Center MULTIMEDIA foresees a preparatory meeting with the Auditor which will be held at the office of Performing Arts Center MULTIMEDIA.

Procedures for the planning and fieldwork of the financial audit

The Auditor's procedures should include:

- Obtaining an understanding of the engagement context.

The Auditor should obtain a sufficient understanding of the engagement context including the Project, the 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 Auditor should pay specific attention to the Contractual Conditions for:

- Documentation, filing and record keeping for Project expenditure and income;
- **Eligibility** of Project expenditure and income;
- **Procurement** and **origin** rules insofar these conditions are relevant to determine the eligibility of Project expenditure;
- Asset management (management and control of Project fixed assets; e.g. equipment).
- Cash and bank management (treasury);
- Payroll and time management;
- Accounting (including the use of exchange rates) and financial reporting of Project expenditure and income;
- Internal controls notably financial internal controls.

The understanding should be sufficient to identify and assess the risks of material errors or misstatements in the expenditure and revenue stated in the Financial Report, whether caused by error or fraud, and sufficient to design and perform further audit procedures.

Complementary letter

The Auditor may at any time during the audit process draw up a complementary letter if he/she considers that Performing Arts Center MULTIMEDIA should be informed about facts and issues that are or may be urgent or of particular interest and importance to Performing Arts Center MULTIMEDIA.

6.3 Reporting

One report for each contract audited

A **specific** and **separate** audit report should be issued for **each audited contract** (see Section 5 Scope).

A joint audit report should be prepared for the full Financial Agreement with European Commission.

Language

The report should be presented in English language.

Audit Findings and Recommendations

Audit findings and recommendations should be clearly reported in understandable report for a Financial Audit.

The Auditor should explicitly state and specify results (satisfactory and unsatisfactory) of specific procedures for obtaining audit evidence in case of doubt or uncertainty with regard to the eligibility of expenditure in the financial findings sections of the draft and final report (unless a finding is no longer valid).

The audit report should include all financial findings made by the Auditor regardless of the amount involved.

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 Financial Audit.

Date of the Audit Report

The date of draft and pre-final reports should be the date when these reports are sent for consultation. The date of the final audit report should be the date when the final Independent Auditor's Report is signed.

Procedures and timetable for the submission of draft and final audit reports

The Auditor should respect the procedures and timetable for the consultation and submission of the draft and final audit report. The Auditor's attention is specifically drawn to the following:

- The Auditor should submit a **draft report** to Performing Arts Center MULTIMEDIA within **21 calendar days after the day of the closing meeting** (i.e. the end of audit field work).

- The period between the **audit closing meeting** and the submission to the Performing Arts Center MULTIMEDIA of the **final audit report** should **not exceed 28 calendar days** or 4 weeks. The Auditor should explain and document any reporting delays in the working papers.

Debriefing meeting with the Performing Arts Center MULTIMEDIA

Performing Arts Center MULTIMEDIA foresees a meeting with the Auditor after receipt of the draft audit report. This meeting will be held at the office of Performing Arts Center MULTIMEDIA.

7 Other Matters

7.1 Contradictory Procedure and Follow-Up

The Auditor may, where appropriate, be requested to provide clarifications or additional information with regard to the final audit report.

Performing Arts Center MULTIMEDIA may request the Auditor for further assistance in the contradictory procedure and with the follow-up of the final audit report. This is covered by these ToR.

7.2 Subcontracting

The Auditor will not subcontract to other experts without prior written authorisation from Performing Arts Center MULTIMEDIA.