

A U D I T A G R E E M E N T

between

fill in:

.....
(Project holder, referred to as the "PARTNER")

and

fill in:

.....
(Auditor, referred to as the "AUDITOR")

and

The Lutheran World Federation / Department for Mission and Development
(referred to as "LWF/DMD")

in respect of the AUDIT arrangements of the following project or programme:

fill in:

.....
(referred to as the "Project").

This agreement is to be read in conjunction with the Project Agreement (including the Letter of Approval and attached Budget) entered into by the PARTNER and LWF/DMD on promoting the above mentioned Project.

1. Duties of the PARTNER in the area of financial reporting

1.1. Responsibilities

- 1.1.1 The PARTNER shall be responsible for the preparation of the Financial Reports of the Project in accordance with the terms of the Project Agreement.
- 1.1.2 The PARTNER shall make the Financial Reports available to the AUDITOR together with the books of account and related subsidiary records and documents. The PARTNER shall provide all other information and explanations required by the AUDITOR for the purposes of the audit.
- 1.1.3 The PARTNER shall arrange for the payment of the audit costs from the Project Funds after the AUDITOR has presented the Audit Report and the Management Letter.

1.2 Financial Report

1.2.1 If the PROJECT is implemented by an institution, church, organization or other entity that performs more work than the project itself, the Financial Report should be prepared on a consolidated basis for the entire entity, with a separate Income and Expenditure Report for the PROJECT (next to an overall statement). The method of consolidation and how the PROJECT financial report relates to the consolidated financial report should be clearly stated.

1.2.2 The consolidated and PROJECT Financial Report should include, at a minimum:

- A Balance Sheet with a breakdown of those assets acquired through project funds and with a breakdown of all composite 'payables' and 'receivables'. Under current assets the (end of year) balances of all designated (project) funds must be listed with clear references to the respective projects.
- PROJECT Income and Expenditure Budget –relevant (allocated) for the period under review- in local currency against the actual PROJECT Income and Expenditure in local currency for the period under review in this Financial Report (see further explanation under 2.1.4)
- Cumulative actual PROJECT Income and Expenditure in local currency for the total project period so far (from the start to the end of the present period under review) against the budget for the respective cumulative period (*as requested on sheet 2 of guidelines for financial reporting*).
- When the project is a continuation phase, a carry forward balance must be clearly shown on top of the income and expenditure statement, while the statement concludes with a closing balance for this designated fund.
- A comparison of the current year PROJECT income and expenditure to the PROJECT budget for the year (as stated in the Agreement)
- Identification of source and amount (in local currency and US dollars) in a separate breakdown for all PROJECT income, (including the respective earmarks/labels) for each transaction received from LWF/DMD, other donors and own sources.
- Detailed description and breakdown of amounts for expenditures included in the "Miscellaneous", "Other", "Contingency" or similar budget line.
- Identification of any inter-project borrowing

2. Duties of the AUDITOR

2.1 Nature and Scope of the Audit

2.1.1 The AUDITOR shall examine the Financial Reports of the Project at least on an annual basis and give an opinion thereon.

2.1.2 The AUDITOR shall plan and perform the work in accordance with generally accepted auditing standards taking into account any relevant local statutory audit and accounting requirements.

2.1.3 The AUDITOR shall carry out a physical inspection of the Project and assets, including a confirmation and reconciliation of bank balances, if the amounts are material or if this is considered to be appropriate or necessary for the purposes of the audit.

2.1.4 The valid budget for the total project as well as for the period under review has to be presented at the relevant place. "Valid" means the most recent mutually agreed budget either for the full period or for a semester. If there is no correspondence on the budget (requests or proposals by the project holder and explicit agreement by LWF-DMD) the budget as issued with the letter of approval is/remains the valid budget. Budget adjustments are generally viewed by LWF as indications of active (financial) project management. Budget adjustments may also be needed and unavoidable due to lower than 100% coverage of budget needs. Budget adjustments can also occur in a context of high inflation and favorable exchange rates.

The auditor is required to control correspondence on budget changes and is requested to summarize agreed reasons for budget change. The auditor is required to ensure accurate representation of the valid budget and express an opinion on budget control. (for variations and budget control, see 2.2.1 C)

2.2 Audit Report

2.2.1 The AUDITOR shall include all relevant matters in the audit report. The AUDITOR shall ensure that all information as spelled out in 1.2.2 is represented in the Audit Report. In addition the Audit Report will specifically include the AUDITOR's opinion upon the following:

- a) whether the Agreement has been adhered to.
- b) whether the Project Funds have been used exclusively for the purposes of the Project in accordance with the Agreement, the Letter of Approval and the Budget.
- c) whether sufficient budget control took place. The variations between the budget and the actual expenditure should be analyzed and commented upon in the context of paragraph 6 of the guidelines for financial reporting.
- d) whether the Financial Report reflects a true and fair view of the financial affairs of the Project.

If the AUDITOR is obliged to qualify the opinion, full reasons shall be given together with a statement of the reasons, that caused the qualification.

2.2.2 The AUDITOR shall ensure that the Financial Report to which the Audit Report refers is clearly identified and will attach a copy of the Financial Report to the Audit Report.

2.2.3 The Audit Report shall be addressed to the PARTNER and LWF/DMD and shall be sent to LWF/DMD by the PARTNER. The audit report needs to be signed and stamped by the AUDITOR with an original initial on each page. The audit report

needs to be countersigned by the PARTNER (usually the Treasurer under a statement or on the balance sheet).

2.2.4 Timeframe:

- a) in all cases where the project implementation follows the calendar year, audit reports must be provided to LWF/DMD on an annual basis on or before June 30 of each year.
- b) in those cases where the fiscal year in a given project country varies from the calendar year, the audited accounts shall be provided within 6 months after the end of that fiscal year.

2.3 Report and Recommendations to Management (Management Letter)

2.3.1 The AUDITOR shall express an opinion as to how accurately the PARTNER has followed the guidelines for (narrative and financial) reporting. Recommendations for improvement need to be expressed.

2.3.2 The AUDITOR shall prepare a letter addressed to the PARTNER outlining the observations upon the system of accounting and internal controls, together with a detailed list of any significant weaknesses that come to the AUDITOR's attention during the course of the audit. The letter will include recommendations as to how these weaknesses may be eliminated and how controls and records might be improved.

3. Interpretation of Agreements

Audit questions arising due to different interpretations of the Project Agreement or this Agreement will normally be resolved between the AUDITOR and the PARTNER. If there is still doubt, or an agreed interpretation cannot be determined, the PARTNER and AUDITOR shall jointly refer the matter to LWF/DMD. LWF/DMD shall endeavor to resolve the questions to the satisfaction of all parties concerned. LWF/DMD, in consultation with the PARTNER and the AUDITOR, will draw up a final interpretation of the matter, which will be binding.

4. Duration of Appointment and Estimation of Audit Costs

4.1 This Agreement shall commence when signed by the PARTNER and the AUDITOR and LWF/DMD. This Agreement terminates after the final Financial Report has been accepted by LWF/DMD, unless earlier notice is given by either party.

4.2 The total audit costs for the entire project period are estimated to amount to:

(fill in)

The audit costs shall be paid by the PARTNER out of Project Funds. If the actual audit costs exceed the estimated amount then the PARTNER will inform

LWF/DMD in writing as to the reasons for the increase.

5. Liability

LWF/DMD shall not be liable for any theft, damage or injury which might result during the course of the audit whilst the AUDITOR attends the offices or Project site of the PARTNER.

6. Legal Validity

If any of the provisions of this Agreement is contrary to the law of the country concerned, the latter shall take precedence over this Agreement. The legal validity of the other provisions in this Agreement shall not be affected.

7. Alteration of the Agreement

The terms of this Agreement may only be altered with the written consent of all parties who have signed the Agreement.

For the **PARTNER**

.....
(Place and Date)

.....
(Signature of authorized signatory/ies)

For the **AUDITOR**

.....
(Place and Date)

.....
(Signature of authorized signatory)

For **LWF/DMD**

.....
(Place and Date)

.....
(Signature of authorized signatory)