



# **IFAD**

# **Handbook for**

# **Financial**

# **Reporting and**

# **Auditing of**

# **IFAD-financed**

# **Projects**

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- ▶ The IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects is available online for public use and dissemination. It is primarily intended as a guide for IFAD borrowers and recipients and other external stakeholders on operational aspects and requirements related to financial reporting (section 5) and auditing (section 6) of IFAD-financed projects. Tailored guidance is provided for investment projects and for grants, both those subject to the Policy for Grant Financing and those financed by supplementary funds. Third-party financiers may impose specific requirements that are not outlined in this Handbook; such specifications are outlined in the respective financing/grant agreements.
- ▶ The Handbook is intended for use in conjunction with the Conceptual Framework for Financial Reporting and Auditing of IFAD-financed Projects approved by the Executive Board at its 122<sup>nd</sup> session on 12 December 2017, and specific related project documents, including financing/grant agreements and letters to the borrower, where relevant.
- ▶ The Handbook will be updated to incorporate new guidance as and when required. Authority to approve changes to the Handbook lies with the Associate Vice-President, Chief Financial Officer and Chief Controller, Financial Operations Department.

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# 1. Abbreviations and acronyms

|           |  |
|-----------|--|
| CI        | Cooperating Institution  |
| DA        | Designated Account   |
| EU        | European Union   |
| GCS       | IFAD General Conditions for Agricultural Development Financing |
| IESBA     | International Ethics Standards Board for Accountants           |
| IAASB     | International Auditing and Assurance Standards Board           |
| IFAD      | International Fund for Agricultural Development                |
| IFI       | International Financial Institution                            |
| IFRS      | International Financial Reporting Standards                    |
| ISRS      | International Standards on Related Services                    |
| ISAE 3000 | International Standard on Assurance Engagements                |
| INTOSAI   | International Organization of Supreme Audit Institutions       |
| IPSAS     | International Public Sector Accounting Standards               |
| ISA       | International Standards on Auditing                            |
| SAI       | Supreme Audit Institution                                      |
| SOE       | Statement of Expenditure                                       |
| TORs      | Terms of Reference   |

## 2. Definitions

1. “Borrower” means a Member State that receives a loan and is designated as such in the financing agreement. A political subdivision of a Member State may be designated as the borrower, provided there are appropriate safeguards.
2. “EU-funded grant” means a grant received and administered by IFAD and funded by the European Union. Such a grant may be provided on a stand-alone basis or in combination with a loan/grant to an investment project.
3. “Investment project” means a project funded by IFAD and financed through a financing agreement under the terms of the General Conditions for Agricultural Development Financing.<sup>1</sup> The financing may include loans, grants or a combination of the two.
4. “Project/programme” means a project or programme that has been provided with financing by or through IFAD, by means of a loan and/or grant.
5. “Public auditor” means a SAI or other public office (i.e. not a private auditor) entrusted with public audit responsibilities.
6. “Recipient” means a Member State or other entity that receives a grant and is designated as such in the grant/financing agreement.
7. “Grant” means a grant financed by IFAD that is subject to the Policy for Grant Financing<sup>2</sup> and grants financed by supplementary funds<sup>3</sup>, as follows:

Type A grants, which are:

- Large grants (greater than and including US\$500,001 or equivalent) that are assessed as medium- or high-risk, as determined by IFAD;
- Small grants (up to and including US\$500,000) that are assessed as high-risk, as determined by IFAD;
- EU-funded grants.

Type B grants, which are:

- Large grants (greater than and including US\$500,001 or equivalent) that are assessed as low-risk, as determined by IFAD;
- Small grants (up to and including US\$500,000 or equivalent) that are assessed as medium- or low-risk, as determined by IFAD;

Type C grants, which are grants of any amount provided to United Nations agencies and Multilateral Development Banks.

<sup>1</sup> As adopted by IFAD’s Executive Board on 29 April 2009 and amended in April 2014.

<sup>2</sup> As approved by the Executive Board at its 114th session of 22 and 23 April 2015. Although subject to the Policy, contribution agreements, including micro-grants (up to and including US\$75,000 or equivalent) are not subject to financial reporting and audit requirements per this Handbook.

<sup>3</sup> Grant based resources from a donor received and administered by IFAD. Any specific provisions required by the donor in relation to financial reporting and auditing are reflected in the grant agreement.

# 3. Effective date and transition

8. The Conceptual Framework for Financial Reporting and Auditing of IFAD-Financed Projects (the Framework) sets the context for the detailed guidance provided in the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects, (the Handbook). The Framework came into effect on 1 January 2018, and the Handbook was approved with effect from 1 January 2018. Together, the Framework and the Handbook will replace the IFAD Guidelines on Project Audits.<sup>4</sup> The requirements set forth in both documents may be adhered to in stages as appropriate up to 1 January 2019, after which date full application will be deemed mandatory for borrowers/recipients.

# 4. Introduction and scope

9. Proper oversight over and governance of its financial resources is vital to IFAD's ability to achieve its objectives. They also enable IFAD to be accountable to its stakeholders. In accordance with IFAD policies and procedures,<sup>5</sup> it is essential that the proceeds of IFAD financing be used solely for the purpose intended under the loan or grant. In line with this requirement, borrowers/recipients must prepare and present audited financial reports that are in accordance with this Handbook.
10. The primary responsibility for financial management arrangements – including financial reporting and auditing – lies with the borrower/recipient. IFAD has an oversight role while also providing support through technical guidance.
11. The impetus for the Handbook came from changes in international accounting and auditing standards, changes in IFAD's way of doing business, and harmonization efforts undertaken by IFAD.
12. IFAD is committed to the modernization of its processes and procedures and to upgrading them to meet international best practices. IFAD is also committed to harmonization of its practices with those of other IFIs, in line with IFAD's development commitments.<sup>6</sup> In this regard, IFAD has moved from a static and rule-based approach to a principle-based conceptual framework – one that will translate into flexible and agile operational procedures. This forms the basis for preparation of this Handbook and should be referred to as appropriate.

<sup>4</sup> As approved by the Executive Board on 12 December 2011.

<sup>5</sup> The Agreement Establishing IFAD, the General Conditions for Agricultural Development Financing, the IFAD Grant Policy and the Conceptual Framework for Financial Reporting and Auditing of IFAD-financed Projects.

<sup>6</sup> Harmonization among IFIs is undertaken in line with IFAD's development commitments as outlined in the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan High-Level Forum on Aid Effectiveness (2011).

13. This Handbook is applicable to projects directly supervised by IFAD. Where supervision arrangements are in place with a Cooperating Institution (CI), IFAD will assess the CI's financial reporting and audit arrangements to ensure adequacy and alignment with this Handbook.

## 5. Financial reporting

14. The IFAD General Conditions for Agricultural Development Financing and the Policy for Grant Financing require the borrower/recipient to maintain accounting records<sup>7</sup> that are adequate to reflect the operations, resources and expenditures related to the project up to the Financing/grant Closing Date. In addition, the borrower/recipient is required to deliver detailed financial reports on its operations, in accordance with standards and procedures that are acceptable to IFAD.

### 5.1 Acceptable accounting standards

15. Project accounting records and financial statements<sup>8</sup> must be prepared in accordance with one of the following acceptable standards:

**Table 1: Summary of acceptable accounting standards**

|   | Accrual basis | Cash basis |
|---|---------------|------------|
| IPSAS <sup>9</sup>  | ✓             |            |
| IPSAS, "Financial Reporting under the Cash Basis of Accounting" <sup>10</sup> |               | ✓          |
| IFRS <sup>11</sup>  | ✓             |            |
| National/regional accounting standards  | ✓             | ✓          |

16. Borrowers/recipients are encouraged to select standards that are the most appropriate for reflecting their operations. The standards adopted should be specified in the notes to the audited financial statements.
17. National/regional accounting standards are acceptable if deemed appropriate by IFAD. IFAD normally assesses the acceptability of the accounting standards on a case-by-case basis, during the project design phase, and provides confirmation (or otherwise) on their use to the borrower/recipient.

<sup>7</sup> Records are required to be maintained in electronic format for a period of 10 years after project closure.

<sup>8</sup> Equally applicable to institutional financial statements (where applicable) as referred to in table 2.

<sup>9</sup> As issued by the International Public Sector Accounting Standards Board (IPSASB)

<sup>10</sup> <https://www.iaasb.org/system/files/publications/files/IPSASB-2016-Handbook-Volume-2.pdf>.

<sup>11</sup> "IFRS" refers to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) after 2001, and relevant International Accounting Standards (IAS) that were issued before 2001 by the International Accounting Standards Committee (IASC).

## 5.2 Financial reporting requirements

18. The financial reporting requirements are as follows:

**Table 2: Financial reporting requirements by type of financing**

|                                     | Investment projects | Grants          |        |        |
|-------------------------------------|---------------------|-----------------|--------|--------|
|                                     |                     | Type A          | Type B | Type C |
| Annual project financial statements | ✓                   |                 |        |        |
| Interim financial reports (IFRs)    | ✓                   |                 |        |        |
| Certified SOEs <sup>12</sup>        |                     | ✓               | ✓      | ✓      |
| Expenditure transaction list        | ✓ <sup>13</sup>     | ✓ <sup>14</sup> |        |        |

### ANNUAL PROJECT FINANCIAL STATEMENTS

19. Borrowers/recipients are required to deliver unaudited<sup>15</sup> project-specific financial statements annually, within four months of financial year-end, covering the duration of the implementation period, in accordance with section 9.02 of the GCs.
20. Financial statements must contain all material and relevant information required to provide IFAD and other stakeholders with a full understanding of the project's activities and financial position.
21. The reporting period will be determined in consultation with the borrower/recipient; it is generally a period of twelve months. This period is expected to coincide with the borrower's financial year, unless otherwise agreed with IFAD.<sup>16</sup>
22. The content of the project's financial statements is prescribed under the applicable accounting standards used as the basis of preparation. IFAD also requires certain additional specific disclosures. A summary of the required content for project financial statements is outlined in table 3:

<sup>12</sup> A certified SOE is an SOE that has been signed by an authorized signatory.

<sup>13</sup> To be appended to project financial statements if the investment project includes an EU-funded grant. Schedule to be presented in euros, even if the project financial statements are presented in the local currency. For ease of review, it is recommended to prepare a reconciliation between this schedule and the project financial statements.

<sup>14</sup> Schedule to be presented in the currency in which the grant agreement is denominated, with the exception of EU-funded grants for which the schedule must be presented in euros, even if the institutional financial statements are presented in the local currency. A reconciliation should be prepared between this schedule and the institutional financial statements.

<sup>15</sup> All project financing sources (IFAD financing, counterpart contributions, beneficiary cash contributions and cofinancier funds, whether in cash or in the form of tax exemption) and all in-kind contributions must be duly valued and accounted for in the project financial statements. Start-up costs and expenditures incurred with retroactive financing must be recorded and included in the first set of financial statements (where applicable).

<sup>16</sup> Refer to paragraphs 50, 51 and 52 for exceptions.



**Table 3: Minimum prescribed content of annual project financial statements to be submitted to IFAD**

| Project financial statement   | Accrual basis  | Cash basis      |
|---|----------------|-----------------|
| <b>Section A: Disclosures as prescribed by accounting standards</b>                 |                |                 |
| 1. Statement of financial position (balance sheet)                                  | ✓              |                 |
| 2. Statement of financial performance/profit or loss (income statement)             | ✓              |                 |
| 3. Statement of changes in net assets/equity  | ✓              |                 |
| 4. Cash flow statement  | ✓              |                 |
| 5. Comparison of budget and actual amounts <sup>17</sup>                            | ✓              | ✓               |
| 6. Notes (a summary of significant accounting policies and other explanatory notes) | ✓              | ✓               |
| 7. Statement of cash receipts and payments  |                | ✓               |
| <b>Section B: IFAD-specific disclosures provided as supplementary information</b>   |                |                 |
| 8. Fixed asset schedule   | ✓              | ✓ <sup>18</sup> |
| 9. Withdrawal application statement   | ✓ (Appendix 1) | ✓               |
| 10. Sources and uses of funds statement   | ✓ (Appendix 2) | ✓               |
| 11. Designated Account statement and reconciliation <sup>19</sup>                   | ✓ (Appendix 3) | ✓               |

23. The borrower/recipient should ensure that IFAD-specific disclosures in table 3, section B are easily and clearly reconcilable to the standard disclosures as outlined in table 3, section A.
24. As a general principle, when a project is implemented by several implementing units (within a single entity), the main implementing unit should prepare a consolidated financial statement. Exceptions will be agreed to between IFAD and the borrower.
25. If in-kind contributions (from beneficiaries and/or the government) are specified in the financing agreement, the borrower is required to make disclosure thereof in its annual project financial statements. The borrower/recipient is required to measure these contributions in accordance with a predefined methodology agreed with IFAD, and to retain all related calculations/documentation for verification during the audit.

<sup>17</sup> Presented as a separate statement or as a budget column in the financial statement. Cash basis financial statements may include this comparison as a column in the statement of cash receipts and payments.

<sup>18</sup> Fixed asset disclosure is not specifically required under the cash basis of accounting. It is requested that disclosure be made for IFAD purposes when the cash basis of accounting is followed. A detailed list of fixed assets is to be provided (description, cost, date of purchase and location of use).

<sup>19</sup> Required also for grants when a separate designated account has been opened, to be submitted together with the certified SOE.

**INTERIM FINANCIAL  
REPORTS (IFRS)**

26. Investment projects are required to submit unaudited IFRs to IFAD with a frequency to be agreed, to be submitted within 45 days of the period-end. The format and content of the IFRs will be discussed with the borrower/recipient during the project design stage and documented in the Project Implementation Manual and/or Letter to the Borrower/recipient, as relevant.

**CERTIFIED  
STATEMENTS OF  
EXPENDITURE**

27. All grant recipients (A, B, and C) are required to submit to IFAD certified Statements of Expenditure (SOE).<sup>20</sup> Type A grant recipients are required to submit the certified SOEs on a semi-annual basis, whereas type B and C grant recipients are required to do so on an annual basis. All certified SOEs must be submitted to IFAD within 45 days of the period-end and must be signed by an authorized signatory.

28. SOEs shall disclose the sources and uses of funds spent to finance the grant activities, specifically:

- Source of financing, whether funded in cash or by contributions in-kind;
- Funds received from IFAD and other cofinanciers, as applicable;

29. Expenditures incurred by the recipient and sub-grantees, on a consolidated basis (if applicable) and in accordance with the pre-established expenditure categories or components. SOEs submitted to IFAD shall be presented in the same currency as the denomination currency of the grant agreement. If projects incur expenditures in currencies other than that of the grant agreement, the exchange rate to be used for reporting expenditures is the rate applied when funds were received, on a first in, first out basis. The proposed format for the SOE is outlined in appendix 5.<sup>21</sup>

30. A final certified SOE shall be submitted by the Grant Closing Date for the totality of eligible expenditures incurred by the project during the project implementation period,<sup>22</sup> with segregation of winding-up expenditures incurred between the Project Completion Date and the Grant Closing Date.<sup>23</sup>

**EXPENDITURE  
TRANSACTION LIST**

31. Recipients of EU-funded grants are required to submit an expenditure transaction list on a semi-annual basis, to be submitted 45 days after period-end. The proposed format for an expenditure transaction list is outlined in appendix 6.

**ADDITIONAL  
SCHEDULES AS  
AGREED**

32. The requirements outlined (in table 2 and 3) are expected to be applicable to most projects. However, additional requirements may be established in the financing/grant agreement and/or in the Letter to the Borrower/Recipient. Borrowers/recipients are required to familiarize themselves with the financial reporting requirements.

<sup>20</sup> As defined in the grant agreement.

<sup>21</sup> Note that the presentation currency for EU-funded grant SOEs is the euro.

<sup>22</sup> As defined in the grant agreement.

<sup>23</sup> As defined in the grant agreement.

# 6. Audit

33. Under the IFAD General Conditions for Agricultural Development Financing and Policy for Grant Financing, projects are required to have their accounts audited regularly in accordance with standards and procedures<sup>24</sup> that are acceptable to IFAD. An audit is required to confirm whether the financial statements provide a true and fair view in all material respects of the financial activities undertaken. Section 6 of this Handbook provides guidance to borrowers and recipients on IFAD’s audit requirements.

## 6.1 Acceptable auditing standards

34. IFAD promotes the use of internationally accepted auditing standards and requires that all projects submit audit reports<sup>25</sup> prepared in accordance with one of the following acceptable auditing standards:

**Table 4: Summary of acceptable auditing standards for financial statement audits**

|   | Public auditor | Private sector auditor |
|---|----------------|------------------------|
| International Standards of Supreme Audit Institutions (ISSAI) <sup>26</sup> | ✓              |                        |
| International Standards on Auditing (ISA) <sup>27</sup>                     |                | ✓                      |
| National/regional standards, if deemed acceptable by the Fund               | ✓              | ✓                      |

35. These standards should also be used by external auditors to conduct financial audits of projects. National/regional standards to conduct financial audits of projects are acceptable if assessed positively by IFAD.

36. The audit scope may be expanded in response to identified project risks. In such instances, the following standards may be applicable and are considered acceptable:

- International Standard on Related Services (ISRE 4400), for agreed-upon procedures where the auditor is required to submit a report outlining factual findings relating to the review of financial information;
- International Standard on Assurance Engagements (ISAE 3000), where the auditor is required to provide an assurance report over and above the financial statement audit report or factual findings report.

24 Acceptable standards are outlined in the “Conceptual Framework for Financial Reporting and Auditing of IFAD-Financed Projects” and in this Handbook.

25 Applicable to project financial statements/institutional financial statements and/or certified SOEs as relevant.

26 Issued by INTOSAI.

27 Issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB).

## 6.2 Appointment of external auditors

**TYPE OF AUDITOR** 37. The type of auditor will be determined by IFAD prior to the conclusion of the project design process. The auditor will either be a public auditor or a private audit firm. IFAD promotes the use of national systems in the implementation of projects. As such, it is preferable that public auditors conduct the audit of IFAD-financed projects in those cases where the capacities and the timing of outputs are adequate.

**CRITERIA FOR THE SELECTION OF PRIVATE AUDIT FIRMS** 38. If it is intended to appoint a private audit firm, the borrower/recipient is required to assess prospective auditors based on the following:

- The auditor must be independent of the project, its staff and activities, in accordance with international best practices. In addition,<sup>28</sup> the project auditor may not provide consultancy services to the project or prepare the project financial statements, or have done so in the previous two years.
- The auditor must be suitably qualified and be a member of a professional body affiliated with the International Federation of Accountants.
- The auditor's work must conform to auditing standards acceptable to IFAD (as outlined in table 4).
- The audit firm must be able to assign an audit team to the audit possessing the necessary competence and skills.
- The audit firm must have a proven track record in conducting audits of a similar nature and complexity.

**APPOINTMENT PROCEDURE** 39. If a private audit firm will conduct the audit, the borrower/recipient is responsible for its selection and appointment process. Auditors should normally be appointed in advance of the start of the period to be audited, to allow the auditor sufficient time to plan and carry out a comprehensive examination of the borrower's/recipient's financial records and accounts. The following appointment process should be adhered to:

<sup>28</sup> As recommended by the International Ethics Standards Board for Accountants (IESBA) in section 290 of the Code of Professional Conduct.

**Table 5: Private audit firm appointment process**

| Step  | Procedures  | Guidance/timing   |
|---|---|---|
| Development of the auditor's terms of reference | <ul style="list-style-type: none"> <li>✓ The B/R prepares TORs for the audit (appendix 7).</li> <li>✓ The B/R sends the TORs to IFAD for review and no-objection.</li> <li>✓ IFAD communicates "no objection" to B/R on the final TORs, within thirty days of receipt.</li> </ul> | In sufficient time to allow the appointment of auditors by the start of the financial year to be audited.   |
| Procurement process                             | <ul style="list-style-type: none"> <li>✓ The B/R initiates the procurement process, using the agreed TORs.</li> <li>✓ The B/R informs IFAD of the name of the proposed auditor and the procurement process that was followed.</li> </ul>  | The B/R should attempt to finalize the procurement process at least thirty days before the start of the financial year. The auditor should be appointed before the start of the financial year to be audited. <sup>29</sup> |
| Auditor appointment                             | <ul style="list-style-type: none"> <li>✓ The B/R appoints the auditor.</li> <li>✓ The appointed auditor will issue a formal engagement letter.<sup>30</sup></li> </ul>  | The B/R's representative will sign and return a copy of the engagement letter to the auditor.   |

40. If a public auditor conducts the audit, its TORs are usually defined by law. However, IFAD may approach the public auditor to request the performance and production of additional audit procedures and/or outputs so as to ensure compliance with this Handbook.

41. EU-funded grants require specific audit procedures that should be incorporated into the TORs. Standard TORs incorporating EU-specific requirements are outlined in appendix 7.

**AUDITOR**

**ENGAGEMENT PERIOD**

42. When a private audit firm conducts the audit, the appointment period may be for more than one year but not longer than four years, subject to satisfactory performance as assessed annually by the borrower and IFAD. A tender for audit services should be launched at least every four years, with the incumbent able to apply. Ongoing appointment will be considered, subject to the outcome of the audit quality review process conducted by IFAD. Appointments and reappointments should take place as soon as possible prior to the start of the new financial year.

43. The auditor may only be discharged from its position subject to IFAD approval.

**SCOPE OF AUDIT**

44. The project's financial audit arrangements are determined during the project's design process, in line with the type and size of financing provided and with the identified project risks. Risk factors can be linked to country, institution and/or project characteristics. To mitigate identified project risks, IFAD may require that audits be performed with an additional scope and/or agreed-upon procedures.

<sup>29</sup> In exceptional cases, and as agreed with IFAD, the appointment may take place during the financial year, but should not unduly impact the auditor's ability to perform its duties.

<sup>30</sup> The contents are to include the scope of the audit, prescribed responsibilities, the auditing standards to be used, compliance with ethical standards and reporting format.

### 6.3 Auditor reporting requirements

The auditor is required to submit the following reports, based on the type of financing:

**Table 6: Auditor reporting requirements by type of financing**

| Type of financing   | Scope  | Deadline for submission <sup>31</sup>                         | Audited financial statements and audit opinion   | Management letter |
|---------------------|--|---|--|-------------------|
| Investment projects | Financial audit of project financial statements  | Six months after financial year-end (unless agreed otherwise) | ✓  | ✓                 |
| Type A Grants       | Financial audit of annual institutional financial statements (including the certified SOEs submitted to IFAD and attached to the financial statements) | Six months after financial year-end (unless agreed otherwise) | ✓<br>A separate audit opinion on the SOE submitted to IFAD is required. <sup>32</sup>                  |                   |
| Type B Grants       | Financial audit of annual institutional financial statements   | Six months after financial year-end (unless agreed otherwise) | ✓<br>A separate audit opinion on the SOE is <b>not</b> required to be submitted to IFAD. <sup>33</sup> |                   |
| Type C Grants       | Not applicable; the submission of a certified SOE is sufficient.   |   |  |                   |

45. The auditor is expected to submit an audit package that at a minimum includes the audited financial statements, the audit report and the management letter (where required).
46. The audit report will outline the audit opinion on the audited financial statements. The opinion is issued in accordance with ISA 700<sup>34</sup>/705, ISSAI 1700/1705 or national standards.
47. The management letter is an integral part of the audit package, which documents internal control issues identified by the auditor. The management letter should:
  - Outline the auditor’s recommendations to address identified internal control issues, and the responses to them on the part of the project’s management.
  - Where applicable, provide follow-up commentary on the issues identified in the previous year’s management letter.
48. In addition, it is required that any ineligible expenditures identified during the audit be outlined in the management letter.

31 The Auditor and the borrower/recipient should ensure effective two-way communication, to see to it that the audit is completed effectively, efficiently and in a timely manner so as to allow the audit report to be issued and submitted in the original to IFAD within six months of project financial year-end, in accordance with section 9.03 of the General Conditions. A non-editable, signed copy of the audit report may be submitted electronically to IFAD in advance. Electronic submissions are considered valid, provided the original version of the report is received at IFAD within 30 days.

32 If the project completion date is not aligned with the recipient’s financial year-end, the certified SOE related to the portion of the last implementation year is to be submitted separately (with an audit opinion) by the Grant Closing Date.

33 Except, in this case, for the SOE related to the portion of the last implementation year, when the project completion date is not aligned with recipient’s financial year.

34 ISA 700 (Forming an Opinion and Reporting on Financial Statements) provides illustrative audit reports.

**AUDIT REPORTING  
PERIOD: INVESTMENT  
PROJECTS**

49. IFAD generally requires an annual audit of project financial statements. However, the frequency of the audit may be changed by IFAD as a function of the project's risk profile. In all instances, IFAD will confirm the frequency with which project financial statements are to be audited.
50. The audit reporting period may be amended for the first and/or final audits, in line with the following guidance:
51. For the **first** audit, in cases in which the project commences during the financial year, the following procedures will generally apply:
  - When the period between the first disbursement and the end of the financial year is less than six months, IFAD may allow the results for the first financial period to be included in the following financial year's audit; or
  - When the period between the date of the first disbursement and the financial year-end is greater than six months, audited financial statements for the period are always required.
52. For the **final** audit, IFAD may recommend an audit reporting period that is longer or shorter than 12 months, but that in no case may exceed 18 months. This is to ensure that the final audit can be concluded and the audit report submitted to IFAD by the Project Closing Date.<sup>35</sup> In such instances, IFAD will discuss and agree on its requirements with the borrower well in advance of commencement of the final audit.

**AUDIT REPORTING  
PERIOD: GRANTS**

53. Grant reporting periods are as follows:
  - For Type A grants, a 12-month audit reporting period is normally required;
  - For Type B grants, a 12-month audit reporting period is normally required, **unless** the implementation period is less than or equal to 18 months. In such instances, and as agreed with IFAD, a single audit opinion on the final certified SOE may be submitted, covering the entire implementation period.

**OTHER AUDITS<sup>36</sup>**

54. In addition to the financial audit, IFAD may also require the following audits:<sup>37</sup>
  - A **compliance audit**<sup>38</sup> to verify compliance with financing agreement provisions, in cases where the financial audit scope does not include such provisions; and/or
  - An **operational audit** to review the project's organizational arrangements and support in solution of substantive implementation issues.

35 As defined in the financing agreement, as advised by the auditor.

36 These types of audits might be required at IFAD's discretion and will be considered on a case-by-case basis, where the financial audit scope goes beyond IFAD's usual fiduciary duty responsibilities or where the results of the financial audit require additional assurance on specific areas of project operations.

37 Conducted in accordance with ISSAI 4000 and ISAE 3000.

38 According to ISSAI 4000, the main objective of a compliance audit is "to provide the intended user(s) with information on whether the audited public entities follow parliamentary decisions, laws, legislative acts, policy, established codes and agreed-upon terms".

## 6.4 Audit quality review process

55. IFAD conducts reviews of borrower/recipient audit reports. The main purpose of the reviews is to determine whether the auditor conducted a quality audit resulting in an audit opinion acceptable to IFAD, and to assess the quality of the financial reporting of the borrower/recipient.
56. IFAD will communicate the results of the audit report review process within sixty days following receipt of the audit package.<sup>39</sup> If required, the borrower/recipient will be requested to take corrective actions within a specified time frame.

## 6.5 Non-compliance with audit requirements

57. Audit reports are due within six months of the borrower's/recipient's fiscal year-end. If IFAD does not receive the audit package by this deadline, or if the audit package is unsatisfactory, IFAD will notify the borrower/recipient. Where appropriate, IFAD may consider engaging an alternative auditor, in accordance with section 10.04 of the GCs.
58. If the audit package, while satisfactory to IFAD, is not submitted within 90 days from the stipulated deadline, IFAD will prepare and send a "warning notice", which will inform the borrower/recipient that failure to receive a satisfactory package within 180 days from the deadline will result in suspension of disbursements under the project or portfolio, and/or other remedies as relevant.
59. If no information is provided by the borrower/recipient within 180 days from the stipulated deadline, or unsatisfactory responses are obtained, IFAD will – in accordance with the terms of section 12.01(b) of the GCs – issue a notice of suspension as stated above until a satisfactory audit package is received.

## 6.6 Transparency and disclosure

60. IFAD will publicly disclose project financial statements and audit reports relating to investment projects,<sup>40</sup> subject to processes applicable to their publication.<sup>41</sup> In line with the standards of the International Aid Transparency Initiative, borrowers/recipients are encouraged to publish relevant financial information on their own websites, for increased accountability.
61. Borrowers/recipients must ensure that the audit TORs explicitly mention the right of the borrower/recipient and of IFAD to publish the audit report, with no limitation-of-use clause.

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<sup>39</sup> See appendix 7 for the definition of an audit package.

<sup>40</sup> The management report will not be disclosed as a public document.

<sup>41</sup> Abridged versions may be published if reports contain confidential information.



# Appendix 1: Withdrawal application statement

For the year ended

| Withdrawal application number                     | Date | Category 1 <sup>42</sup>       | Category 2 | Category 3 | Total | Designated Account currency equivalent <sup>43</sup> | Value date <sup>44</sup> | Rejected by IFAD | Net reimbursed |
|---|------|--------------------------------|------------|------------|-------|--|--------------------------|------------------|----------------|
|   |      | <i>In local currency – xxx</i> |            |            |       | <i>In designated account currency</i>                |                          |                  |                |
| <b>Section A: Payment method – Replenishment</b>  |      |                                |            |            |       |  |                          |                  |                |
| Approved withdrawals                              |      |                                |            |            |       |  |                          |                  |                |
|   |      |                                |            |            |       |  |                          |                  |                |
| Pending submission                                |      |                                |            |            |       |  |                          |                  |                |
|   |      |                                |            |            |       |  |                          |                  |                |
| <b>Subtotal (A)</b>                               |      |                                |            |            |       |  |                          |                  |                |
| <b>Section B: Payment method – Reimbursement</b>  |      |                                |            |            |       |  |                          |                  |                |
| Approved withdrawals                              |      |                                |            |            |       |  |                          |                  |                |
|   |      |                                |            |            |       |  |                          |                  |                |
| Pending submission                                |      |                                |            |            |       |  |                          |                  |                |
|   |      |                                |            |            |       |  |                          |                  |                |
| <b>Subtotal (B)</b>                               |      |                                |            |            |       |  |                          |                  |                |
| <b>Section C: Payment method – Direct payment</b> |      |                                |            |            |       |  |                          |                  |                |
| Approved withdrawals                              |      |                                |            |            |       |  |                          |                  |                |
|   |      |                                |            |            |       |  |                          |                  |                |
| Pending submission                                |      |                                |            |            |       |  |                          |                  |                |
|   |      |                                |            |            |       |  |                          |                  |                |
| <b>Subtotal (C)</b>                               |      |                                |            |            |       |  |                          |                  |                |
| <b>TOTAL (A+B+C)</b>                              |      |                                |            |            |       |  |                          |                  |                |

## Preparation tips

- The Designated Account currency equivalent is determined using the historical exchange rate for transfers to the operating account.
- The subtotal for approved withdrawals should reconcile to the statement of receipts and payments (cash basis disclosure) and sources and uses of funds statement.

<sup>42</sup> Categories as outlined in schedule 2 of the financing agreement.

<sup>43</sup> The Designated Account currency is to be specified.

<sup>44</sup> The exchange rate value date is to be specified.

# Appendix 2: Sources and uses of funds statement

|                                 |  | Current period        | Previous period       | Cumulative            |
|---------------------------------|--|-----------------------|-----------------------|-----------------------|
| <i>Presentation currency</i>    |  | <i>Local currency</i> | <i>Local currency</i> | <i>Local currency</i> |
| <b>Sources of funds</b>         |  |                       |                       |                       |
| IFAD                            | <ul style="list-style-type: none"> <li>Loans: replenishments</li> <li>Loans: direct payments</li> <li>Grants</li> </ul>                            |                       |                       |                       |
| Cofinanciers                    | <ul style="list-style-type: none"> <li>Financier A loan</li> <li>Financier A grant</li> <li>Financier B loan</li> <li>Financier B grant</li> </ul> |                       |                       |                       |
| Borrower/recipient              | <ul style="list-style-type: none"> <li>Borrower contributions cash</li> <li>Borrower contributions in kind</li> </ul>                              |                       |                       |                       |
| <b>Total sources of funds</b>   |  |                       |                       |                       |
| <b>Uses of funds</b>            |  |                       |                       |                       |
| <b>By category</b>              |  |                       |                       |                       |
| By category IFAD                | <ul style="list-style-type: none"> <li>Category 1</li> <li>Category 2</li> </ul>   |                       |                       |                       |
| By category Cofinanciers        | <ul style="list-style-type: none"> <li>Category 1</li> <li>Category 2</li> </ul>   |                       |                       |                       |
| By category Borrower/recipient  | <ul style="list-style-type: none"> <li>Category 1</li> <li>Category 2</li> </ul>   |                       |                       |                       |
| By category Other               | <ul style="list-style-type: none"> <li>Category 1</li> <li>Category 2</li> </ul>   |                       |                       |                       |
| <b>By component</b>             |  |                       |                       |                       |
| By component IFAD               | <ul style="list-style-type: none"> <li>Category 1</li> <li>Category 2</li> </ul>   |                       |                       |                       |
| By component Cofinanciers       | <ul style="list-style-type: none"> <li>Category 1</li> <li>Category 2</li> </ul>   |                       |                       |                       |
| By component Borrower/recipient | <ul style="list-style-type: none"> <li>Category 1</li> <li>Category 2</li> </ul>   |                       |                       |                       |
| By component Other              | <ul style="list-style-type: none"> <li>Category 1</li> <li>Category 2</li> </ul>   |                       |                       |                       |
| <b>Total uses of funds</b>      |  |                       |                       |                       |
| <b>Surplus/deficit</b>          |  |                       |                       |                       |

#### Preparation tips

- Present the cumulative period covering the full project period.
- Present the uses of funds in terms of categories and components (as specified in the financing agreement).
- Present loans and grants separately.
- Present sources separately for each financier.

# Appendix 3: Designated Account statement and reconciliation

|                        |                                  |           | US\$ (or as otherwise denominated) | Local currency equivalent (optional) |
|------------------------|----------------------------------|-----------|------------------------------------|--------------------------------------|
| Opening balance        | Notes                            |           | A                                  | A                                    |
| <b>Add:</b>            |                                  |           |                                    |                                      |
| 1                      | IFAD replenishments:             |           |                                    |                                      |
|                        | Date                             | WA No XXX |                                    |                                      |
|                        | Date                             | WA No XXX |                                    |                                      |
|                        |                                  | B         | B                                  | B                                    |
| 2                      | Bank interest                    |           | C                                  | C                                    |
| <b>Deduct:</b>         |                                  |           |                                    |                                      |
| 1                      | Transfers to operating accounts: |           |                                    |                                      |
|                        | Date                             | XXX       |                                    |                                      |
|                        | Date                             | XXX       |                                    |                                      |
|                        |                                  | E         | E                                  | E                                    |
| 2                      | Bank charges                     |           | F                                  | F                                    |
| 3                      | Exchange rate differences        |           |                                    | G                                    |
| <b>Closing balance</b> |                                  |           | <b>A+B+C-E-F</b>                   | <b>A+B+C-E-F-G</b>                   |

# Appendix 4: Designated Account reconciliation statement

For the year ended 20XX

IFAD financing agreement number: \_\_\_\_\_

Bank account number: \_\_\_\_\_

|  | Denomination currency | Local currency (if applicable) |
|--|-----------------------|--------------------------------|
| <b>Section 1</b>   |                       |                                |
| 1 Total advanced by IFAD   | A                     |                                |
| 2 <u>Less</u> total amount recovered by IFAD   | -B                    |                                |
| 3 = Outstanding amount advanced by IFAD  | C                     |                                |
| <b>Section 2</b>   |                       |                                |
| 4 Balance of Designated Account according to the bank statement  |                       |                                |
| 5 <u>Plus</u> balance of operating accounts  | D                     |                                |
| <u>Plus</u> cash on hand   | E                     |                                |
| = Total bank balances as at xxxx   | = D+E                 |                                |
| 6 <u>Plus</u> amount claimed in this application   |                       |                                |
| WA xx  |                       |                                |
| WA xx  |                       |                                |
| 7 <u>Plus</u> amounts withdrawn and not yet claimed  | +F                    |                                |
| WA xx  |                       |                                |
| WA xx  |                       |                                |
| Provide reasons for not yet claimed.   | G                     |                                |
| 8 <u>Plus</u> amounts claimed in previous applications and not yet credited at the bank statement date, or claimed after the bank statement date |                       |                                |
| <i>Application number</i> <i>Date</i> <i>US\$</i> <i>Amount</i>  |                       |                                |
|  |                       | US\$      0                    |
|  |                       | US\$      0                    |
|  |                       | US\$      0                    |
|  | H                     |                                |
| 9 <u>Less</u> : interest earned  | I                     |                                |
| 10 = Total advance accounted for (D+E+F+G+H-I)   | =J                    |                                |
| 11 Explanation of difference between outstanding advance (line 3) and advance accounted for (line 10)  | C - J                 |                                |
| <i>Insert explanations</i>   |                       |                                |

Date: \_\_\_\_\_ Signature: \_\_\_\_\_

Name in Full: \_\_\_\_\_

Title in Full: \_\_\_\_\_

# Appendix 5: Statement of Expenditure

Name of recipient: \_\_\_\_\_ Grant number: \_\_\_\_\_

Name of project: \_\_\_\_\_

Reporting period from \_\_\_\_\_ to \_\_\_\_\_ in \_\_\_\_\_ (currency)<sup>45</sup>

| Description | Current semester |         |            | Year to date |         |            | Cumulative |         |            |
|-------------|------------------|---------|------------|--------------|---------|------------|------------|---------|------------|
|             | Actual           | Planned | Variance % | Actual       | Planned | Variance % | Actual     | Planned | Variance % |
|             | 1                | 2       | 3=1/2      | 4            | 5       | 6=4        | 7          | 8       | 9=7/8      |

## Sources of funds

|                               |  |  |  |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|--|--|--|
| IFAD grant – EU fund          |  |  |  |  |  |  |  |  |  |
| IFAD grant – Other            |  |  |  |  |  |  |  |  |  |
| Counterpart fund              |  |  |  |  |  |  |  |  |  |
| Other donor                   |  |  |  |  |  |  |  |  |  |
| <b>Total sources of funds</b> |  |  |  |  |  |  |  |  |  |

## Uses of funds

|                                  |  |  |  |  |  |  |  |  |  |
|----------------------------------|--|--|--|--|--|--|--|--|--|
| <b>1 By components</b>           |  |  |  |  |  |  |  |  |  |
| 1.1 List subcomponents           |  |  |  |  |  |  |  |  |  |
| <b>2 By expenditure category</b> |  |  |  |  |  |  |  |  |  |
| 2.1 List categories              |  |  |  |  |  |  |  |  |  |
| Subtotal                         |  |  |  |  |  |  |  |  |  |
| Non-IFAD or EU                   |  |  |  |  |  |  |  |  |  |
| <b>Total uses of funds</b>       |  |  |  |  |  |  |  |  |  |

We hereby certify that the receipts from IFAD have been expended for eligible expenditures for the proper execution of the project, in accordance with the terms and conditions of the agreement dated \_\_\_\_\_.

Name and title: \_\_\_\_\_ Dated: \_\_\_\_\_

### SOE preparation tips

- Include expenditures incurred by sub-grantees (if applicable).
- Use the same currency as specified in the grant agreement (euros are used if it is an EU grant).
- Signed by an authorized signatory.
- Current semester covers eligible expenditures (actual) and the semi-annual budget (planned) for the semester.
- Year-to-date covers eligible expenditures (actual) and the annual budget (planned) during the year.
- Cumulative-to-date covers eligible expenditures (actual) and total allocated budget (planned) from the beginning until the current semester.
- Include legal commitments.
- Disclose income generated from advance withdrawals.
- Specify whether expenditure was in cash or in kind.

<sup>45</sup> Currency of the grant agreement (or euros in the case of a EU-funded grant).

# Appendix 6: Expenditure transaction list

*Applicable to EU-funded grants*

| Item no. | Date of transaction | Cross reference number | Withdrawal application number | Project component/cost category | Project subcomponent/sub-category | Description of transaction | Supplier name | Amount in local currency (specify currency) | Exchange rate applied <sup>20</sup> | Amount in euros |
|----------|---------------------|------------------------|-------------------------------|---------------------------------|-----------------------------------|----------------------------|---------------|---|-------------------------------------|-----------------|
|          |                     |                        |                               |                                 |                                   |                            |               |   |                                     |                 |
|          |                     |                        |                               |                                 |                                   |                            |               |   |                                     |                 |
|          |                     |                        |                               |                                 |                                   |                            |               |   |                                     |                 |
|          |                     |                        |                               |                                 |                                   |                            |               |   |                                     |                 |

<sup>46</sup> If project expenditures are incurred in a currency other than the euro, such expenditures must be converted to euros using the exchange rate applied upon conversion, or at the spot rate on the date of receipt, on a first in, first out basis.

# Appendix 7: Audit terms of reference

## Terms of reference for the financial audit and factual findings of

**[Title of the project]**

### 1. Background

- The International Fund for Agricultural Development (IFAD) is aiding the borrower/recipient in the form of loan(s) [and/or grant(s)].
- A financing [and /or grant] agreement or agreements has/have been signed between IFAD and the [borrower/recipient]; refer to appendix 1.
- [Insert for private auditor]: IFAD requires the borrower/recipient to appoint an independent auditor to audit the accounts related to the project, in accordance with the IFAD Handbook on Financial Reporting and Auditing.
- The reporting entity is [xxx].
- The entity prepares its financial statements in accordance with [applicable accounting standard].
- The auditor conducts its audit in terms of [applicable auditing standard].
- [Insert any other information that may be relevant to the auditor].

### 2. Objective

The objective of this audit is to enable the auditor to express an opinion on whether the financial statements (including additional disclosures as outlined in section 5) present fairly, in all material respects, the financial position of the reporting entity as at [insert year-end date], and/or the results of its operations and its cash flows for the years then ended, in conformity with the [applicable accounting standards].

### 3. Responsibilities of the [borrower/recipient]

#### I. GENERAL

- Provide financial statements for the activities financed by the loan/[grant] that are reconcilable to its records and accounts.
- Provide the auditor with access to all legal documents and correspondence with consultants, contractors and other persons or firms engaged by the project, and any other information associated with the project and deemed necessary by the auditor.
- Ensure that the accounting policies are consistently applied and disclosed.
- Ensure that appropriate internal controls are implemented to prevent misstatements and susceptibility to fraud.
- Ensure compliance with all relevant laws and regulations that pertain to the entity, as well as with the financing agreement between the [borrower/recipient] and IFAD.
- Provide the financial statements to the auditor within a reasonable time and be available for any queries that the auditor may have.

## II. FINANCIAL STATEMENTS

The [borrower/recipient] shall:

- Prepare financial statements covering the reporting period [date] to [date], in accordance with [IPSAS/IPSAS “Financial Reporting under the Cash Basis of Accounting” standards]. In addition, the following specific disclosures will be included in the financial statements:
  - Withdrawal application statement– appendix 1 to the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects;
  - Sources and uses of funds statement – appendix 2 to the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects;
  - Designated Account statement and reconciliation – appendix 3 to the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects;
  - [Statement of Expenditure – appendix 5 to the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects] – applicable to grants;
  - [Expenditure transaction list – appendix 6 to the IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects] – applicable to grants.

### 4. Responsibilities of the auditor

#### I. AUDITING STANDARDS

- The auditor is responsible for the formulation of an opinion on the financial statements in accordance with [ISA/ISSAI/national auditing standards];

#### II. GENERAL PRINCIPLES

By agreeing to these terms, the auditor confirms that:

- The firm is independent from the project, its staff and activities, in accordance with international best practices.
- The firm is not providing consultancy services to the project or preparing its project financial statements (nor has it done so in the previous two years).
- The auditor is suitably qualified and a member of a professional body affiliated with the International Federation of Accountants.
- [The office of [public auditor] is a member of the International Organization of Supreme Audit Institutions (INTOSAI).]
- The auditor is able to conduct the audit in line with auditing standards acceptable to IFAD, pursuant to paragraph 4.1.
- The firm can assign an audit team to the audit that has the necessary competence and skills.
- The firm has a proven track record in conducting audits of a similar nature and complexity.



**III. MANAGEMENT  
LETTER**

The management letter is an integral part of the audit package that documents accounting and internal control issues identified by the auditors. The management letter should:

- Outline the auditor's recommendations to improve identified accounting and internal control issues;
- Include the responses of project management to the identified control issues, and its proposal to address the issues identified within a specific time period.
- Where applicable, follow up on the issues identified in the previous year's management letter.

**IV. REPORTING**

The Auditor is required to deliver an audit package that includes:

- The audited financial statements, including additional disclosures as outlined in paragraph 3.2;
- An audit opinion on the financial statements, within the scope as outlined in paragraph 5;
- A report on factual findings, within the scope of agreed-upon procedures as outlined in paragraph 6. Any ineligible expenditure identified should be clearly mentioned.
- A management letter, including the information outlined in paragraph 4.3;

The audit report should provide sufficient detail as to the nature and extent of the procedures performed by the auditor. The auditor is required to provide the audit package by no later than [insert date]. Reports are to be delivered in English.

**5. Scope of the financial audit**

In performing the audit, at a minimum the auditor shall:

- Obtain an understanding of the internal controls related to the financial reporting process, to identify and assess any weakness in internal control that might result in misstatements, whether due to fraud or to error;
- Design and conduct audit procedures in response to any weaknesses identified in the internal controls relating to the financial reporting process, to obtain audit evidence that the financial statements are fairly presented and free from material misstatements, in accordance with the applicable accounting framework;
- Verify whether expenditure that was incurred in the name of the project is in line with the terms of the financing agreement(s) (appendix xx) and incurred for the purposes intended in this agreement. Both IFAD and third party funding should be taken into consideration;
- Verify that the inventory and fixed assets held by the entity exist, are complete, are properly accounted and are used for the project purposes;
- Note any weaknesses in the internal control environment and in the financial reporting process, and communicate those in the management letter.
- [List others].

## 6. Scope of the agreed-upon procedures

The auditor is required to perform the following specific procedures and report on factual findings as required in paragraph 4.4.

### I. WITHDRAWAL APPLICATION STATEMENT

The auditor is requested to obtain the individual withdrawal applications (WAs) submitted to IFAD, as summarized in the withdrawal application statement, and develop test procedures to:

- Determine whether the Designated Account currency equivalent was determined using the historical exchange rate of transfers to the operating account;
- Determine whether goods and services have been purchased through the SOE mechanism in line with the stipulated SOE threshold;
- Determine whether the expenditures claimed through SOE procedures were properly and appropriately authorized, classified<sup>47</sup> and supported by audit documentation;
- Identify any ineligible expenditure;
- [List additional procedures, if applicable].<sup>48</sup>

### II. DESIGNATED ACCOUNT STATEMENT AND RECONCILIATION

The auditor is requested to review the activities of the designated account(s) associated with the project, including the initial advance, replenishments, interest that may accrue on the outstanding balances, and the year-end balances. The auditor is requested develop test procedures to:

- Check the accuracy of the Designated Account reconciliation(s);
- Confirm that the Designated Account(s) have been maintained in accordance with the provisions of the financing agreement;
- [List additional procedures if applicable].

### III. CERTIFIED STATEMENT OF EXPENDITURE

[Applicable to grants]

The auditor is requested to obtain the certified Statement of Expenditure as submitted to IFAD, and develop test procedures to:

- Determine if expenditures incurred are related to the project description in according with the grant agreement;
- Determine whether goods and services have been purchased through the SOE mechanism in line with the stipulated SOE threshold;
- Determine whether the expenditures claimed through SOE procedures were properly and appropriately authorized, classified<sup>49</sup> and supported by audit documentation;
- Identify any ineligible expenditure;
- [List additional procedures if applicable].

47 The threshold for SOE transactions will be stipulated in the letter to the borrower.

48 Procedures may include enquiry/analysis/recalculation/comparison/observation/inspection.

49 The threshold for SOE transactions will be stipulated in the letter to the borrower.

**IV. EXPENDITURE  
TRANSACTION LIST**

[Applicable to grants]

The auditor is requested to obtain the expenditure transaction list submitted to IFAD and develop test procedures to:

- Determine if the expenditure incurred is related to the project description in accordance with the grant agreement;
- [List additional procedures if applicable].

**V. OTHER**

EU-specific requirements: [to be advised by IFAD]

- Confirm that the e-archiving system is of sufficient quality and substance;
- Confirm the level of exchange rate gains/losses that have been incurred by the recipient;
- Confirm the degree of compliance with the recipient's procurement policy and identify non-compliance (this can also be done as a compliance audit);
- [List additional procedures if applicable].

**7. Public disclosure**

IFAD promotes public disclosure of project financial information to enhance the level of transparency and accountability. IFAD will disclose project audit reports, as appropriate, in line with the Fund's disclosure policy. Management Letters issued by auditors are not subject to public disclosure by IFAD. In agreeing to the terms of reference, the auditor explicitly acknowledges IFAD's right to publicly disclose audit reports (audited financial statements and audit opinion) and will issue reports without a limitation of use clause.

To facilitate the public disclosure process, the auditor is requested to submit two separate files as follows:

- Audited financial statements and audit opinion; and
- Management Letter.

**8. Appendices**

[list as applicable]

Appendix: Financing/grant agreement(s)

Appendix: Letter to the Borrower

Appendix: IFAD Handbook on Financial Reporting and Auditing of IFAD-financed Projects

Signed by: \_\_\_\_\_

Date: \_\_\_\_\_

▶ May 2018



Investing in rural people

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