

VOLUNTEERS FOR AFRICA (VFA)

**TERMS OF REFERENCE FOR EXTERNAL AUDIT OF
VFA FINANCIAL STATEMENTS**



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A. Background

Volunteers for Africa is a nonprofit organisation formed in 2001 to work with communities in Africa to improve their quality of life. Our work is hinged on three platforms: programmes, volunteerism and advocacy.

B. Objective of the Audit

- The objective of the audit of the Financial Statements (FSs) is to enable the auditor to express a professional opinion(s) on the financial position of VFA as an organization at the end of each fiscal year and on funds received and expenditures incurred for the relevant accounting period.
- The books of accounts provide the basis for preparation of the FSs by VFA and are established to reflect the financial transactions in respect of the organization. VFA maintains adequate internal controls and supporting documentation for transactions.

C. Preparation of Annual Financial Statements

- The responsibility for the preparation of financial statements including adequate disclosure is that of the VFA. VFA is also responsible for the selection and application of accounting policies and prepare the FSs in accordance with International Financial Reporting Standards (IFRS)/International Public Sector Accounting Standards.
- The auditor is responsible for forming and expressing opinions on the financial statements. The auditor would carry out the audit of the project in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part of the audit process, the auditor may request from the VFA a written confirmation concerning representations made in connection with the audit.

D. Audit Scope

These terms of reference address audit requirement for the audit of financial statements of the VFA covering period 1st October – 31st September of each year;

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A draft audit report should be submitted by 20th February and a final signed audit report with certified statements by 25th February each year. The financial statements for the financial year will be made available no later than 10th February following the end of the financial year.

The audits should be carried out in accordance with International Standards of Auditing (ISA) and International Financial Reporting Standard (IFRS)/ International Public Sector Accounting Standards. In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

- a) **Fraud and Corruption:** Consider the risks of material misstatements in the financial statements due to fraud as required by **ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements**. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud;
- b) **Laws and Regulations:** In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the VFA - KYEP with laws and regulations may materially affect the financial statements as required by **ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements**;
- c) **Governance:** Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by **International Standards on Auditing 260: Communication of Audit Matters with those Charged with Governance**, and
- d) **Risks:** In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by **Internal Standard on Auditing 330: the Auditor's Procedures in Response to Assessed Risks**.
- e) The audit be done in accordance with international standards issued by International Organization of Supreme Audit Institutions (**INTOSAI**) or International Federation of Accountants (**IFAC**) and **ISA 800**

Sufficient audit evidence should be gathered to substantiate in all material respects the accuracy of financial statement.

The audit report of the auditors should state if the audit was not in conformity with any of the above standards and any development partners funds have been provided and used in accordance with the relevant financing agreements, national laws and regulations have been complied with, and that the financial and accounting procedures approved for the organization (e.g. operational manual, financial procedures manual, etc.) were followed and used.

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E. The Audit Report and Management Letter

a) Audit Report

The audit report should clearly indicate the auditor's opinion. This would include at least the following:

- The title, addressees, and an opening or introductory paragraph containing;
- identification of the financial information audited including the period covered; and
- Statement of the responsibility of the entity's management and the responsibility of the auditor.
- A scope and methodology paragraph describing the nature of the audit referencing
- the accounting standards that have been applied and indicate the effect of any deviations from those standards;
- The audit standards that were applied; and
- The work the auditor performed.
- An opinion paragraph disclosing
- whether the financial statements and supporting schedules fairly present the cash receipts and expenditure in all material respects
- Whether the financial transactions reflected in the statements are in accord with financial regulations and procedures, budgetary provisions and other applicable directives.
- The auditor may expand the report to include other information and explanations not intended as a reservation. Audit reports will be provided in English.

b) Management Letter

- The auditor should submit a letter to the management at the completion of the audit. The topics/issues to be covered in the letter should include:
- Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
- Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
- Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
- Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
- Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
- Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
- Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures.

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- Recommendations to resolve/eliminate the internal control weaknesses noted should be included.
- Management comments/response to audit findings and recommendations.

F. Auditor Independence and Qualification

The auditor must be completely impartial and independent from all aspects of management or financial interests in the entity being audited. The auditor should not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of VFA. The auditor should disclose any relationship that might possibly compromise his/her independence.

The auditor should be experienced in applying ISA and IFRS. The auditor must employ adequate staff with appropriate professional qualifications and suitable experience with ISA including experience in auditing the accounts of entities comparable in size and complexity to VFA.

Curriculum vitae (CVs) should be provided to VFA by the principal of the audit institution who would be responsible for signing the opinion, together with the CVs of managers, supervisors and key personnel proposed as part of the audit team. CVs should include details on audits carried out by the applicable staff, including ongoing assignments indicating capability and capacity to undertake the audit and experience in auditing financial statements compliant with the International Financial Reporting Standards.

G. Access to Facilities and Documents

The auditor will have full and complete access at any time to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts etc.) and all employees of the entity. The auditor will have a right of access to banks and depositories, consultants, contractors and other persons or firms engaged by the management over the period under the audit review.

H. Auditor Experience & Qualification

- The Auditor Firm should be registered, and have a practicing license from Institute of Certified Public Accountant. The firm should have relevant experience in accounting & auditing of membership organization and projects especially donor funded operations.

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The audit firm should have full time partners, not less than 4 employees and have been in existence for not less than eight (8) years.

- The Key Team will comprise of at least
 - a) Engagement Partner with over 2 years auditing experience with sound knowledge of donor financed projects
 - b) An Audit Manager with over 2 years of experience in Auditing and with a sound knowledge of donor financed projects;
 - c) An Audit Team Leader with at least 2 yrs experience in Auditing; and
 - d) Sufficient Assistant Auditors with adequate experience & professional qualifications.