

Terms of Reference for Project Audit

1. Introduction

Centar za promociju civilnog društva (hereafter referred to as the “Grant recipient”) wishes to engage the services of an audit firm for the purpose of auditing the SMART Balkans – Civil Society for shared society in the Western Balkans project (hereafter referred to as the “Project”), as stipulated in the agreement between the Grant recipient and the Norwegian Ministry of Foreign Affairs (hereafter referred to as the MFA) PTA agreement number RER-21/0005.

The project is implemented in partnership with organizations from Albania – Institute for Democracy and Mediation (IDM) and North Macedonia – Center for Research and Policy Making (CRPM) (hereafter referred to as the “Project partners”) in six counties (Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, and Serbia).

Project duration is from **January 2022** to **December 2025** (hereafter referred to as the “Support Period”).

The Project contributes to strengthening participatory democracies and Euro Atlantic integrations in the Western Balkans by empowering civil society organizations and CSO networks for stronger and active role in creating peaceful and inclusive societies for sustainable development in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.

The expected effects for the target group of the Project are:

- Stronger, more sustainable, and vibrant CSOs in the six countries of the Western Balkans region;
- Developed strong regional partnerships between civil society organizations from the region of the Western Balkans themselves and with their EU counterparts and public authorities;
- Increased effectiveness of citizen influencing change through CSOs that advances Security and Stability and Governance in the Western Balkans region.

Topics covered by the project:

- Capacity building and encouraging a more active role of CSOs;
- Creation of regional partnerships between CSOs;
- Increase of citizen influence on decision-making through CSOs, resulting in increased security, stability and governance in the region of Western Balkans;
- Raising awareness about the importance of active participation of civil sector in important development initiatives.

Main focus of the project is distribution of more than 450 sub grants, CSO capacity building and campaigning, all related to two main topics:

- Security and Stability
- Good Governance

Sub granting component consists of 7 types:

1. Core grants
2. National interventions
3. Media grants

* This designation is without prejudice to positions on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

4. Regional grants
5. Local initiatives
6. Creative box
7. Ad hoc grants

Total project budget amounts to maximum **NOK 180,000,000** (Norwegian Kroner one hundred and eighty million)¹ (hereinafter referred to as the "Grant") distributed as follows:

Sub-grants	145,719,428
Capacity building	4,866,000
Conferences	3,833,251
Management cost	17,009,892
Total direct cost	171,428,571
Indirect cost	8,571,429
Total project cost	180,000,000

Sub grant recipient are referred to as Cooperating partners.

2. Objectives and scope of the audit

The annual financial statements of the Project shall be audited in accordance with International Standards of Auditing (ISA).

The audit shall be carried out by an external independent chartered/certified and qualified auditor (hereafter referred to as the Auditor).

The objective is to audit the annual financial statements of the project for the period 1 January 2022 to 31 December 2025 as submitted to Norwegian Ministry of Foreign Affairs (MFA) and to express an audit opinion according to ISA. The auditor shall comply with all ISAs relevant to the audit, ref.:

- **ISA 200** (Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing), paragraphs 18 and 20.
- Of Particular relevance is **ISA 240** (The Auditor's responsibility to Consider Fraud and Error in an Audit of Financial Statements), and
- **ISA 800** ("Special Considerations audits of single financial statements and specific elements, accounts or items of a financial statement").

Audits shall be carried out annually for each calendar project year (ie. FY2022, FY2023, FY2024, FY2025) upon which annual audit reports will be produced.

Scope of audit for the Support Period include an audit of:

- all Project partners annual financial statements (CPCD, CRPM and IDM)
- audit of the Cooperating partners as per the provisions of the Grants manual.

The audit requirements stated in this Agreement are applicable for the total Grant, including any part of the Grant that has been transferred to Project partners and Cooperating partners.

¹ approximately 17,647,059 EUR

3. Procedures and assignments

3.1 Grant recipient and Project partners

Mandatory procedures that must be included:

- I. Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget².
- II. Observe and inspect whether the financial report provides information regarding:
 - a) Financial outcome per budget line (both incomes and costs) for the reporting period and columns for cumulative information regarding earlier periods under current agreement;
 - b) When applicable, compare if the opening fund balance³ for the reporting period matches with what was stated as closing fund balance in the previous reporting period;
 - c) A disclosure of exchange gains/losses. Inquire and confirm whether the disclosure includes the entire chain of currency exchange from MFA's disbursement to the handling of the project/programme within the organisation in local currency/ies, if applicable;
 - d) Explanatory notes (such as, for instance, accounting principles applied for the financial report);
 - e) Amount of funds that has been forwarded to implementing partners, when applicable.
- III. a) Inquire and inspect with what frequency salary costs during the reporting period are debited to the project/programme.

Choose a sample of three individuals for three different months and:

 - b) Inquire and inspect whether there are supporting documentation⁴ for debited salary costs.
 - c) Inquire and inspect whether actual time worked is documented and verified by a manager.
 - d) Inspect whether the Grant recipient comply with applicable tax legislation with regard to personal income taxes and social security fees.
- IV. a) Inspect and confirm that the unspent fund balance (according to the financial report) at the end of the financial year is in line with information provided in the accounting system and/or bank account.
b) Applicable the final year: Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that shall be repaid to MFA.

4. Cooperating partners

Mandatory assignments that must be included for funds forwarded to Cooperating partners:

- I. Choose a sample of minimum 80% of the total of disbursed funds to Cooperating partners as well as the minimum 80% of the number of Cooperating partners;
- II. Inspect and confirm whether the Grant recipient and Project partner have signed agreements with the selected Cooperating partners;
- III. Perform audit sampling in accordance with provisions of the Grants manual;
- IV. Inquire and inspect whether the Grant recipient and Project partners have verified if reports from Cooperating partners are in line with the requirements in the Agreement;
- V. Inquire and inspect whether the Grant recipient and Project partners have documented its assessment of the submitted financial reports of Cooperating partners;
- VI. Inquire and inspect whether the Grant recipient and Project partners have has documented its follow-up actions based on the information provided in the financial reports of Cooperating partner;

² The budget is attached to the agreement with MFA as an annex and any updates should be supported by a written approval by MFA.

³ I.e. funds remaining from disbursements made during previous reporting period/s

⁴ Debited salary costs should be verified by supporting documentation such as employment contracts.

- VII. Inquire and inspect whether the Grant recipient and Project partners have reported substantial observations⁵ (if any) from Cooperating partner reports in its communication with Grant recipient and Project partner.

The Cooperating partner is responsible for submitting all relevant documentation requested by the Auditor.

When deemed necessary the Grant recipient and Project partners are allowed to add agreed upon procedures based on the Grant recipient's risk assessment of the Cooperating partners. In such cases, the audit reporting should include Independent Auditor's Report, Management Letter, Agreed-upon Procedure Report (ISRS 4400) and the Cooperating partner's management response and action plan.

5. The reporting

The reporting shall be signed by the responsible auditor (not just the audit firm⁶) and shall include the title of the responsible auditor.

- I. The Project audit report shall include:
 - a) the Project name and agreement number;
 - b) identification of the Project's total expenses and total income;
 - c) the subject of the audit;
 - d) the financial reporting framework applied;
 - e) the auditing standards applied;
 - f) a statement that the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement;
 - g) the auditor's opinion
- II. In addition to the Project's audit report, the auditor shall submit a management letter, which shall contain:
 - a) any findings made during the audit of the Project. If any findings have been reported in the management letter, the Grant Recipient shall prepare a management response including an action plan to be submitted to MFA together with the management letter.
 - b) It shall also list any recommendations and measures that have been taken as a result of previous audits and whether such measures have been adequate to deal with reported shortcomings. The recommendations shall be presented in priority order and with a risk classification. Measures taken by the Grant recipient and/or Project partners to address weaknesses identified in previous audits shall also be presented in the Management Letter.
 - c) If the previous audit did not have any findings or weaknesses to be followed-up on, a clarification of this must be disclosed in the audit reporting.
 - d) If the auditor assesses that no findings or weaknesses have been identified during the audit that would result in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

The auditor of the Project's consolidated financial statement is responsible for the direction, supervision and performance of the audit of any part of the Grant that has been transferred to a Cooperating partner. The auditor shall assure itself that those performing the audit for cooperating partners have the appropriate qualifications, that the audit is in compliance with professional standards, and that the audit report is appropriate under the circumstances.

⁵ Deemed substantial by the Cooperation partner.

⁶ If the audit firm is obliged to sign, refer to relevant legislation. MFA still needs to know who has been responsible for the audit assignment.

The auditor of the Project's consolidated financial statement shall express an opinion on whether the statement is prepared, in all material respects, in accordance with the requirements of the Agreement. To this end, the auditor shall obtain sufficient appropriate audit evidence regarding the financial statements of the cooperating partner and the consolidation process.

When applicable, the sample size shall be stated in the report.