

## Audit Agreement

Annex 3 to the cooperation agreement

The following Agreement is concluded:

<b>between</b>	
Audit Firm:	
Contact person:	
E-Mail:	
Address:	
P. O. Box:	
<b>and</b>	
Project Partner:	Public Foundation "Fair & Sustainable Development Solutions"
Contact person:	Muratbek Ismailov
E-Mail:	muratbek.Ismailov@fsds.kg
Address:	Public Foundation "Fair & Sustainable Development Solutions" Muratbek Ismailov Bokonbaeva street 204  720017 Bishkek Kyrgyzstan
P. O. Box:	
<b>and</b>	
Financing Partner:	Evangelisches Werk für Diakonie und Entwicklung e. V. for Brot für die Welt
Project Officer:	Nina Khuchua
E-Mail:	nina.khuchua@brot-fuer-die-welt.de
Address:	Evangelisches Werk für Diakonie und Entwicklung e. V. Caroline-Michaelis-Straße 1 10115 Berlin Germany
Project number:	N-KGZ-2018-0099
Project period:	From 01.05.2018 till 30.04.2021

This agreement defines the principles and obligations according to which the Audit Firm will conduct its audit of the Project Partner and lists the duties of the auditor, the Financing Partner and the Project Partner.

These principles and obligations will be implemented in a bilateral contract (engagement letter) between the Project Partner and the Audit Firm which are extended by this agreement as necessary. The principles and obligations set out here are supplementary to the engagement letter between the Project Partner and the Audit Firm.

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The audit agreement regulates the tripartite relationship of the parties to each other.

## **1. Duties of the Project Partner**

### **1.1**

The Project Partner shall provide the Audit Firm with a copy of the cooperation agreement between the Financing Partner and the Project Partner, including the expenditure and income plan.

### **1.2**

The Project Partner shall provide the Audit Firm with the financial report together with the accounts and related subsidiary records and documents, and shall ensure that the audit can be conducted on time so that the dates for the submission of financial reports can be met. The Project Partner shall provide all further information and explanations required by the Audit Firm for the purposes of the audit.

### **1.3**

The Project Partner shall respond to the audit firm in writing in regard to all recommendations made in the management letter.

### **1.4**

The Project Partner shall arrange for the payment of the audit costs from the project funds after the Audit Firm has submitted the audit report and the management letter, and these have been accepted by the Project Partner.

The Project Partner shall notify the Financing Partner and the Audit Firm without delay of any objections to the audit report and/or the management letter.

Section 4.17 of the cooperation agreement, concluded between the Financing Partner and the Project Partner, will not apply to the settlement of invoices for audit fees.

## **2. Duties of the Audit Firm**

### **2.1 Accreditation**

The Audit Firm shall produce evidence to the Project Partner and the Financing Partner in appropriate form of its authorisation or registration as an audit firm.

### **2.2 Aim of the audit**

#### **2.2.1**

The aim of the audit is the submission of audit opinions related to the financial report on the project, compliance with the cooperation agreement and the use of the project funds by the Project Partner. The format of the report must comply with the format prescribed by ISA 800 and defined in 2.2.4. Only with regard to confirmations under section 2.2.4 a and b is an audit opinion also admissible in accordance with ISAE 3000.

#### **2.2.2**

The audit report is to be addressed to the Project Partner and the Financing Partner.

#### **2.2.3**

The Audit Firm shall ensure that the financial report to which the audit report refers are clearly marked (e.g. through initialling and dating each page), and shall attach a copy of the financial report to the audit report.

#### **2.2.4**

The Audit Firm shall include all material exceptions as qualifications of the audit opinion. In particular, the audit report shall contain the opinion of the Audit Firm on the following:

- a) compliance with the cooperation agreement;
- b) use of the project funds exclusively for purposes of the project and in accordance with the cooperation agreement;
- c) whether the financial statements show a true and fair view of the income and expenditure and the financial position of the project.

If the auditor has to qualify opinion c or identifies material exceptions to opinions a and b, full details shall be given in the audit report. In addition to the audit report, the Financing Partner may require the Audit Firm, unless it is stated otherwise, to complete the audit completion checklist (see enclosures) in which specific aspects of the audit activities are confirmed, three times during the project duration.

#### **2.2.5**

Within three months following the end of the reporting period, the Audit Firm shall send an electronic file of the audit report, together with the management letter described under section 2.4 and, where applicable, the check list mentioned under section 2.2.4, to the Financing Partner.

Further, the Audit Firm shall within three months following the end of the audit period send to the Project Partner two copies of the audit report, together with the management letter described under section 2.4 and, where applicable, the check list referred to under section 2.2.4.

### **2.3 Nature and scope of the audit**

The Audit Firm shall plan and conduct the audit in compliance with the International Standards on Auditing (ISA) as applied in the country in which the Project Partner has its head office. Should the ISAs not be adopted in this country, the Audit Firm shall ensure that the audit team has been trained to perform the audit in compliance with the International Standards.

The audit is to be conducted at the office of the Project Partner in which the accounts relevant to the project are kept. In exceptional cases, which have to be justified to the Financing Partner, it may also be carried out at another location agreed by the Project Partner and the Audit Firm. A pre-requisite is that all relevant accounting records and other documents are available to the auditor.

The audit is to be planned so as to provide the auditor with sufficient, appropriate evidence as a basis for the opinions required in section 2.2.4. For the purpose of the opinion b, the auditor shall carry out, if appropriate, a physical inspection of the project. Fixed assets and/or items of inventory with acquisition costs of € 410 or more shall be subject to physical inspection in order to verify their use in accordance with the intended purpose. Exceptionally, a physical inspection can be omitted if the financial costs of that inspection would have no reasonable relationship to the value of the asset(s)/inventory concerned and if there is no evidence that funds have been used for non-project purposes.

In cases where real estate has been acquired or buildings constructed as an integral part of the project, the scope of the audit shall include an examination to verify their use in accordance with the intended purpose and also an examination of the ownership rights or rights of disposal in order to identify any encumbrances or obligations to third parties, which need to be notified to the Financing Partner.

### **2.4 Management letter**

The Audit Firm will communicate to the management of the Project Partner its observations concerning the accounting system and internal controls together with a detailed list of any significant weaknesses that come to the Audit Firm's attention during the course of the audit, as well as the risks associated therewith. The management letter must contain recommendations as to how these weaknesses can be eliminated and controls and records improved. The recommendations should be discussed and agreed with the management.

### **2.5 Storage and surrender of clients' documents**

The Audit Firm undertakes to store the documents passed to it in connection with the performance of the assignment and those prepared by itself, as well as correspondence exchanged about the assignment, in a safe place and to protect the same from unauthorised access by third parties.

At the demand of the Financing Partner, all documents which the audit firm has received by reason of its activities for the Financing Partner and/or the Project Partner, either from them or for them, are to be returned following the end of the assignment.

## **3. Duties of the Financing Partner**

The Financing Partner shall notify the Project Partner and the Audit Firm of any objections to the audit report and/or the management letter within a three months period after the receipt of the documents.

The Financing Partner shall respond to any questions or matters arising from the audit which may be raised or put forward by either the Audit Firm or the Project Partner within a reasonable period of time.



#### **4. Precedence of this agreement**

In case of any contradiction between this audit agreement and the Audit Firm's own engagement letter, this agreement shall take precedence.

#### **5. Interpretation of agreements**

Any audit questions arising from a differing interpretation of the cooperation agreement or this agreement will normally be resolved between the Audit Firm and the Project Partner. Should doubts still exist or should it not be possible to reach agreement upon an interpretation, the Project Partner and the Audit Firm shall jointly refer the matter to the Financing Partner. The Financing Partner shall arrive at a solution to the questions to the satisfaction of all parties concerned. Following consultation with the Project Partner and the Audit Firm, the Financing Partner will compose a final interpretation of the matter which shall be binding.

#### **6. Agreement term and audit costs**

##### **6.1**

This agreement shall commence upon signature by the Project Partner, the Audit Firm and the Financing Partner. It shall end following the approval of the last audit report by the Project Partner and the Financing Partner in accordance with sections 1.4 and 3 unless it has previously been terminated by any party.

##### **6.2**

The audit costs for the entire Project are expected to amount to a total of:

(insert amount/currency)

The audit costs are to be paid by the Project Partner from the project funds. Should the actual audit costs exceed the estimated sum, the Project Partner shall inform the Financing Partner in advance and in writing of the reasons for the increase.

#### **7. Termination of the agreement**

This agreement may be terminated by any of the three parties hereto observing a period of notice of 6 weeks to expire at the end of a month. Notice of termination must be given in written form. The Financing Partner reserves the right at any time to terminate, revoke or rescind this agreement if the back donor, either in whole or in part, revokes or withdraws its confirmation of funds, or gives any other notice of change.

The agreement may be terminated at any time for cogent reasons. A cogent reason exists in particular where:

- a) the Audit Firm fails to comply with its obligations under this agreement or any further - including legal obligations;
- b) the pre-requisites for the conclusion of the agreement have subsequently lapsed;
- c) insolvency proceedings are pending or have been applied for or opened against the audit firm; in this respect, the Audit Firm is under an obligation to give corresponding notification;
- d) the behaviour of the audit firm is liable to damage the image or the reputation of the Project Partner and/or the Financing Partner.

In this case, the Financing Partner will cease further payments and demand the return of fees already transferred in excess of the value of the services actually provided.


#### **8. Final provisions**

No verbal ancillary agreements have been made.

Amendments to this agreement may only be made with the written consent of all parties hereto. Should any of the provisions of this agreement conflict with the law of the relevant country, the latter shall take precedence over this agreement. The legal validity of the remaining provisions of this agreement shall not be affected thereby.

**Project number: N-KGZ-2018-0099**

**Project Partner:  
Public Foundation "Fair & Sustainable Development Solutions"**

Bishkek 11.05.2018 Muratbek Ismailov   
Place, date, name and signature of the legal/authorised representative



**Audit Firm:**

.....  
Place, date, name and signature of the legal/authorised representative

**Evangelisches Werk für Diakonie und Entwicklung e. V.  
for Brot für die Welt**

.....  
Place, date Lutz Wollziefer Head of Dept. AS/Middle East, Caucasus Central Asia  
Unit, stamp

Enclosures

- Cooperation agreement including the project application and the approved expenditure and income plan
- Audit completion checklist
- Explanatory notes regarding modifications to the income/expenditure account (cash-based accounting) in financial reports