

## Term of Reference for external Audit services

Date: 21 July 2025

### BACKGROUND

#### About DKH

Diakonie Katastrophenhilfe (DKH) is part of the Evangelisches Werk für Diakonie und Entwicklung e.V. (EWDE), in Germany. The organization supports people affected by natural disasters, war and displacement globally, delivered through a global network of partner organizations.

DKH has been supporting partner organizations in the delivery of emergency responses and resilience building initiatives in Yemen since June 2019. It currently operates from its office in Aden. DKH provides technical and other backstopping support to all partner organizations by building their capacities and strengthening relations.

- **Project information:**

The project “Multi-sectoral Emergency Response to support IDPs and other vulnerable groups in Marib, Ad Dali’ and Shabwah Governorates, Yemen.” was funded by German Federal Foreign Office (GFFO). The implementing partners YFCA and BFD delivered humanitarian assistance to vulnerable communities in Marib and Shabwa governorates. The project aimed to improve access to safe drinking water (output 1), enhance target communities’ knowledge and practices related to hygiene (output 2), improve the target groups’ ability to meet basic food needs through various cash modalities (output 3) and finally provide free of charge basic health (output 4) and protection (output 5) services to the most vulnerable communities in the target governorates.

Project number for financial year: 2023-2025

- **Project Code:** K-YEM-2023-9007 funded by German Federal Foreign Affairs, implemented by YFCA, BFD and DKH.
- **Year of audit:** Years of auditing: August 2023 to April 2025
- **Partners information:**
  - **Yemen Family Care Association :**  
YFCA is a leading, independent and neutral non-governmental organization that works nationwide at different levels to promote equitable and sustainable development, humanitarian response, and other relevant interventions for a better life and wellbeing of Yemeni communities and individuals. YFCA works closely with the government, local and international partners, urban and rural Yemeni communities in an endeavor to complement the efforts of other actors and stakeholders who work towards common purposes.

○ **Building,Foundation,for,Development BFD :**

(BFD) is a non-profit and non-governmental organization. BFD always aims to mitigate the suffering of communities affected by wars and disasters by working nationwide at different levels to promote equitable and sustainable development, humanitarian response, and other relevant interventions for a better life and wellbeing of communities and individuals.

#### OBJECTIVE OF THE PROJECT AUDIT

- The objective of the TOR is to engage an audit firm to perform an audit of the two Diakonie Katastrophenhilfe (DKH)'s project implementing partners, i.e., YFCA and BFD, concerning the project **'Multi-sectoral Emergency Response to support IDPs and other vulnerable groups in Marib, Ad Dali' and Shabwah Governorates, Yemen., Yemen'** funded by GFFO.
  - The auditor would carry out the audit of the project in accordance with the International Standards on Auditing (ISA), the International Standard on Assurance Engagements (ISAE) 3000 and the International Standard on Quality Control (ISQC), all in their most recent version. As part of the audit process, the auditor may request from DKH Office abroad written confirmation concerning statements made in connection with the audit.

#### • SCOPE OF THE AUDIT

- The Auditor designs and carries out the audit in accordance with the objective and scope of this engagement and the procedures. The Auditor may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets, obtaining confirmations or any others deemed necessary in carrying out these procedures.

The auditor obtains sufficient appropriate verification evidence from these procedures to be able to draw up a report of factual findings.

The audit of the project will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. Special attention should be paid by the auditor as to whether all applicable relevant) rules and regulations of Diakonie Katastrophenhilfe (DKH), German Federal Foreign office (GFFO) and the contractual engagements have been adhered to. These include the:

1. Cooperation Agreement
2. Administrative Agreement (Annex 1 of the Cooperation Agreement)
3. DKH standard procedures for reporting (as part of the administrative agreement)
4. Approved budget (Cost-Financing Plan (as part of the cooperation agreement)
5. Rules and regulations of GFFO (AN Best P and BNBest), above all spending deadlines and utilization of funds for purposes intended for.
6. International Standards on Auditing (ISA)
7. the International Standard on Assurance Engagements (ISAE) 3000
8. the International Standard on Quality Control (ISQC),
9. national legislation

- a) funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
- b) goods, works and services financed have been procured in accordance with the relevant financing agreements, including specific provisions of DKH Regional Office Accounting, Procurement Policies and Procedures;
- c) all necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE). The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;
- d) Designated Accounts have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement;
- e) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g. financial procedures manual, etc.) were followed and used.
- f) Assets procured from project funds exist and there is verifiable ownership by the partner.

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 DKH office abroad 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;
- 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) **Advances:** Travel advances and personal advances to local staff and expatriate staff

#### • PROJECT FINANCIAL STATEMENTS (PFSS)

The auditor should verify that PFSSs have been prepared in accordance with the international accounting standards and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date. **The Project Financial Statements (PFSS) should include:**

- a) A statement of funds received, showing funds received from the DKH Head Office in local and foreign currencies;
- b) A statement of Expenditures (SOEs);

- c) A Balance Sheet;
- d) A cash flow statement;
- e) A summary of the principal accounting policies that have been adopted, and other explanatory notes;
- f) A list of material assets acquired or procured to date with project funds.

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the Project”, with those shown as being disbursed by the Bank (Balance on Hand).

• **STATEMENT OF EXPENDITURES (SOEs) / JOURNAL LISTING**

- a) The appropriate exchange rates are used, is the first exchange occurs when receiving the fund from the donor and transferring it to USD or YER until the fund is totally consumed.
- b) The exchange rates in the Exchange Rates Table are the same as those used in the journal listing;
- c) The columns in the voucher lists are filled with all the necessary details required;
- d) In principle, all inspected documents have to be the original copies. Especially, proofs of payments are to be checked;
- e) The items registered as capital assets correspond to those recorded in the inventory listing;
- f) Examine, on a test basis, that there is supporting documentation related to reported expenditure. The size of the test shall be based on the auditor’s risk analysis, which should be stated in the report. The auditor shall report the identified amount in case there is any missing supporting documentation;
- g) Follow up whether salary costs debited to the project are recorded throughout the duration of the year in a systemized way and examine whether the salary costs can be verified by sufficient supporting documentation, moreover, if the positions’ title in the payroll sheet and data base as same as the budget line description.
- h) Examine if the expenses percentage (including salaries and all other expenses) is equal to the percentage approved in the budget.
- i) Follow up whether the partners organizations have followed the donor regulation in procurement process,
- j) The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period;
- k) The auditor should examine the eligibility of financial transactions by checking **the supporting documents** related to the project implementation; where the partner has two operating offices – Head Quarter office and filed office- the auditor must ensure checking all the originals located in both offices.

**BFD and YFCA will be audited in Sana’a while DKH will be audited in Aden.**

**Total expenses per year including the 3 parties are approximately 700 to 900 entries**

- l) The adequacy of internal controls for this type of disbursement mechanism.
- m) The operation and use of the designated fund in accordance with the financing agreement;

- **DESIGNATED ACCOUNT**

In conjunction with the audit of the Project PFSs, the auditor is also required to review the activities of the Designated Account associated with the project. The Designated Account usually comprises:

- a) Income received from DKH Head office;
- b) Interest that may have been earned on the accounts;
- c) Withdrawals related to project expenditures;
- d) Account balances at the end of such a period.

- **AUDIT REPORT**

The auditor will issue an opinion on the project financial statements (PFSs). The annual audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with the financing agreement terms.

The addressee of the audit report is the authorized representative of the project holder as well as the country representative.

The following documents have to be delivered by the auditors:

- Auditor's report/opinion including a compliance statement in respect of the GFFO received funds;
- Audited financial statement(s) of the project(s) under consideration (balance sheet, income and expenditure account of the project holder, receipt and payment account / cash flow statement of the project including opening and closing balances of funds and a plan-actual comparison / variance report with the approved budget);
- Management Letter (including comments on the implementation of previous year's recommendations and new recommendations);
- Notes to the accounts (if relevant in the given context of the project):
  - a) list of income/receipts according to origin/source;
  - b) foreign currency transactions (incl. examination of exchange transactions);
  - c) list of all bank accounts in the country;
  - d) list and explanations of debts / accounts receivable related to debtors, amount, reason and time of emergence;
  - e) list and explanation of liabilities related to creditors, amount, reason and time of emergence;
  - f) statement on assets, in particular evidence of new acquisitions and the compliance with the DKH approval, if applicable;
  - g) legal claims of staff to severance pay and retirement pensions.
  - h) Advances to local and expatriate staff
  - i) Unspent balances per project

- **MANAGEMENT LETTER**

In addition to the audit report, the auditor will prepare, if the auditor deems it necessary, a management letter, in which the auditor will:

- a) Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;

- b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
- c) Report on the degree of compliance in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
- d) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
- e) Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
- f) Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
- g) Bring to the recipient's attention any other matters that the auditor considers pertinent.

#### • AVAILABLE INFORMATION

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

#### • Time frame & Audit Deliverables

- The consolidated financial report and accounting records of the project(s) under consideration must be made available to the auditors before the audit starting date.
- The auditing process shall be completed within 4 weeks.
- Two copies of the audited financial statements including the audit report, management letter and management response should be received by the DKH Yemen office no later than one week after completion of the audit.
- If there is any reason for a delay, this has to be communicated directly to the DKH office by either party (with copies of the correspondence to the other party concerned).

#### • Language

Audit report, Management letter, other communication shall be in English language.

#### • Desired Profile of the Auditors

- Audit firm with a regional presence in the Project Implementation countries or with permit to operate in both south and north Yemen
- The audit firm must be registered and has a license from a national or regional professional Accountancy Body (e.g. Chamber of Commerce).
- Legal documents must include valid registrations in both north and south, valid tax card, proof of membership in both national and international audit firms. Any missing legal documents will lead to the firm's exclusion from the evaluation phase
- Certification by the German representation of the country is an asset.

- The firm should have relevant experience in accounting and auditing of humanitarian projects, especially donor-funded operations.
- The key audit team will comprise, at least: (a) An audit manager with at least 7 years' experience in auditing and with a sound knowledge of German Funded Projects. In addition, he/she should be a member of a recognized accountancy professional body; (b) A team leader with at least a degree in auditing/accounting or equivalent with a minimum of 5 years' experience in auditing; and (c) An assistant auditor with adequate experience and professional qualifications.

#### • Fees

The fees are computed based on the actual time spent on auditing affairs and on the levels of skill and responsibility of staff involved. Unless otherwise agreed, their fees will be billed upon delivery of the documents listed under paragraphs 8 & 9 above and will be payable on presentation of the invoice. Diakonie Katastrophenhilfe reserves the right to reduce the fees in case of considerable delays caused by the auditing company regarding the agreed time frame.