

Term of Reference for external Audit services

Date: 23 April 2024

-DKH Country Office Yemen

**- BACKGROUND**

- **Project information:**

Project no for financial year 2023- 2024:

- K-YEM-2022-4096 (Emergency Food Security and Early Recovery in Amran Governorate, Yemen) for YLDF funded by Caritas.
- K-YEM-2022-4098 (Yemen Hunger Crisis Response) for YFCA funded by DKH.
- K-YEM-2022-4098 (Yemen Hunger Crisis Response) for BFD funded by DKH.

- **Projects' duration:**

K-YEM-2022-4096: 01.01.2023 – 31.03.2024

K-YEM-2022-4098:01.01.2023 - 31.10.2023:

- **Partners information:**

- **YLDF:** Youth Leadership Development Foundation (YLDF) grew out of a small initiative formed in the summer of 1998 called "Girls' World: that started its first activity from its headquarters - in the Dreams of the Birds Kindergarten in Sana'a - in a way that allowed many girls to obtain their right in education, which at the time was beyond the reach of a large percentage of girls, unlike their male counterparts. So, the initiative allocated a large percentage of free school seats to girls from low-income families with the aim of creating qualified models of girls, which resulted in a quantum leap in developing the capabilities of girls to play tangible roles in advancing community development.
- **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.
- **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.

**- OBJECTIVE OF THE PROJECT AUDIT**

- The objective of the audit of the Project Financial Statements (PFSs) / institutional financial statements is to enable the auditor to express a professional opinion(s) on the financial position of

the project / the office at the end of each fiscal year, on funds received and expenditures incurred for the relevant accounting period.

- 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(s) 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 donors rules and regulations and contractual engagements have been adhered to. These include the:
    - Cooperative agreement
    - Administrative Procedures.
    - DKH & Caritas Standards for reporting.
    - Approved budget (cost Plan).
  - 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.
  - 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;
  - 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 agreed with the underlying books of account.
  - 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.
  - 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.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters: **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.

- a) **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;
- b) **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;
- c) **Risks**: 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.
- d) **Advances**: Travel advances and personal advances to local staff and expatriate staff

#### - PROJECT FINANCIAL STATEMENTS (PFSs)

- The auditor should verify that PFSs 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 statement of funds received, showing funds received from the DKH Head Office in local and foreign currencies.
  - A statement of Expenditures (SOEs).
  - A Balance Sheet.
  - A cash flow statement.
  - A summary of the principal accounting policies that have been adopted, and other explanatory notes.
  - 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 must 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 **no less than 30% of total transactions' number- and this should be officially confirmed by the audit-** related to the project implementation.
- 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 must be delivered by the auditors:
  - Auditor’s report/opinion including a compliance statement in respect of the donors’ 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).
  - 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 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 audited DKH office no later than one week after completion of the audit.
- If there is any reason for a delay, this must be communicated directly to the audited DKH office by either party (with copies of the correspondence to the other concerned party).

- Language

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

- 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.