

Term of Reference for external Audit services

Date :19 Feb 2025

DKH Country Office Yemen

About DKH

Diakonie Katastrophenhilfe provides humanitarian aid worldwide. It is registered in *YEMEN* as *LOCAL NAME OF DKH*. The non-profit organization supports people affected by natural disasters, war and displacement and who are not able to cope on their own in the emergency they find themselves in. Our focus and effort is to help people in great need worldwide regardless of their colour, religion and nationality. One of the most important principles of our work is impartiality and independence. Diakonie Katastrophenhilfe painstakingly observes its aim not to become an instrument for political, economic or military interests, particularly in conflict areas. . Projects and programs are designed to suit the local conditions and are integrated in the economic, social and political context of a specific country or region. Diakonie Katastrophenhilfe is committed to the basic principles of humanitarian aid as laid down in the Code of Conduct of the red Cross and Red Crescent and of non-governmental aid organizations in the context of assistance. Closely cooperating with local partners and being a member of the ACT Alliance (Action by Churches Together), Diakonie Katastrophenhilfe has been delivering humanitarian aid with local partners in the Horn of Africa since the 1990s. The organization maintains country offices in Somalia, South Sudan and Ethiopia (integrated office with our sister organization Brad for the World) and a Regional Office in Nairobi, which coordinates and streamlines the humanitarian aid programmes in the region and provide quality assurance

BACKGROUND

- **Project information:**

Project number for financial year 2021-2024:

K-YEM-2020-0371 funded by BMZ implemented by DKH from 2021-2024

K-YEM-2020-0371 funded by BMZ implemented by ADO from 2021-2024

K-YEM-2020-0371 funded by BMZ implemented by NMO from 2022-2023

- **Partners information:**

- **Abs Development Organization for Women and Child (ADO):** : It was established on 22 August 1996 Based on the provisions of Resolution No. (01) of 2001 regarding custom No. (1) and based on the provisions of Regulation No. (24) of Law No.(1) and its executive regulations issued by Prime Minister's Resolution No. 129 of 2004, which is a nongovernmental, civil institution that enjoys an independent legal personality and carries out an activity (developmental and humanitarian) and does not aim from its activity to make commercial profit, and it undertakes the task of contributing with everyone in creating a better standard of living for women and children youth and minorities and to provide innovative and sustainable solutions in the field of humanitarian response and improving livelihood opportunities. Fighting poverty and contributing to the eradication of ignorance and diseases through the establishment of development and relief projects for the neediest groups affected by the war and establishing partnership relations with civil society organizations, public and private sector institutions and international organizations. With a focus on efficiency and continuity in its workflow.

- **Makers Organization -NMO (NMO):** Nahda Makers is a national, youth and humanitarian non-governmental organization has a licensed number (284) from the Ministry of Social Affairs and Labor, launched in 12.12.2012

We in Nahda Makers work from our deep belief of the potential of community and self-energies of its members, especially the young people and their ability to bring about real change and sustainable solutions if they has been invested effectively We are working to turn this belief into actual procedural steps through our work in empowerment and humanitarian response in partnership with international, regional and national organizations, government and private sector, experts and youth Initiatives.

OBJECTIVE OF THE PROJECT AUDIT

The objective of the TOR is to engage an audit firm is to perform an annual audit and to report to Diakonie Katastrophenhilfe (DKH) in connection with the cooperation agreement with the two project implementing partners, i.e., NMO and ADO- with the support of DKH-, concerning the project 'Increasing Resilience through Innovative and Sustainable Improvement of Food Security and Livelihoods for Returnees, IDPs and Host Communities in the Western Coastal areas of Yemen (K-YEM-2020-0371) funded by Federal Ministry for Economic Cooperation and Development (BMZ).

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 for all project's parties; ADO,NMO and DKH part under the BMZ project only. As part of the audit process, the auditor may request from DKH Office abroad written confirmation concerning statements made in connection with the audit.

PREPARATION OF PROJECT ANNUAL FINANCIAL STATEMENTS

The responsibility for the preparation of the financial statements including adequate disclosure of the Partner abroad representative. The representative of the office abroad is also responsible for the application of accounting policies, the partner abroad would prepare the FSs in accordance to international financial reporting standards.

The project books of accounts provide the basis for preparation of the PFSs by the representative of the partner and are established to reflect the financial transactions in respect of the project. The representative of the office abroad maintains adequate internal controls and supporting documentation for transactions.

The representative of the office abroad of the above project is responsible for ensuring the maintenance of proper accounting records in accordance with the generally accepted accounting principle as well as requirements of the partner abroad. They are also responsible for the submission of all the accounting records related to the projects and all other relevant records (e.g. progress reports) and related information to the auditors according to time frame agreed with the auditor that allows smooth audit assignment.

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:

- a) all applicable relevant BMZ rules and regulations and contractual engagements have been adhered to:
 - Cooperative agreement
 - Administrative Procedures;
 - BMZ Standards for reporting;
 - Approved budget (cost Plan);
 - Rules and regulations of BMZ, above all ANBest-P and BN-Best
- b) 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;
- c) 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;
- d) 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;
- e) 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;
- f) National laws and regulations have been complied with, and the financial and accounting procedures approved for the project (e.g. financial procedures manual, etc.) were followed and used.
- g) Assets procured from project funds exist and there is verifiable ownership by DKH- BMZ office abroad.

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 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) 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) Examine partner compliance with all relevant rules and regulations of BMZ and the expenditure deadlines per disbursement.
- k) The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period.
- l) The auditor should examine the eligibility of financial transactions by checking **the supporting documents** related to the project implementation.
- m) The adequacy of internal controls for this type of disbursement mechanism;
- n) 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 BMZ 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

Each partner's report and engagement letter should be provided separately.

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 audited DKH 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 audited DKH office by either party (with copies of the correspondence to the other concerned party).

Desired Profile of the Auditor(s)

- Audit firm with a regional presence in the Project Implementation countries or with permit to operate in the said countries.
- The audit firm should be registered and have a license from a national or regional professional Accountancy Body.
- 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.

14. Language

Audit Report & Management advisory must be presented in English Language.

Audit report, Management letter, other communication shall be in English language.15. Fees

The fees are computed on the basis of 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 9 and 10 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.

Please send the application to:

procurement.yem@diakonie-katastrophenhilfe.de

CC: marwa.ali@diakonie-katastrophenhilfe.de

Please direct any questions to:

marwa.ali@diakonie-katastrophenhilfe.de