



## **Annex A: Network Funding Reporting Guidelines**

### **TERMS OF REFERENCE (“ToR”) FOR EXTERNAL AUDIT**

**Project Name: Winterization Emergency Response for Lebanon (WARM VI)  
Project No. EM23-106**

<b>An entity subject to Audit:</b>	ADRA Lebanon
<b>Country:</b>	Lebanon
<b>Reference/date of the request for services:</b>	April 29, 2024
<b>Starting date of the Audit:</b>	May 13, 2024
<b>Ending date of the Audit:</b>	May 24, 2024

The present terms of reference apply to external audits declared in the financial part of the **EM23-106**.

**A. Key Information about the Grant Agreement**

Information about the Grant Agreement	
References number and date of the Grant Agreement	EM23-106 (WARM VI)
Grant Agreement title	<b>Winterization Emergency Response for Lebanon (WARM VI)</b>
Country	Lebanon
Coordinator	ADRA International
Entity Subject to the Audit	ADRA Lebanon
Start date of the implementation period of the Project	20/11/2023
End date of the implementation period of the Project	30/04/2024
Total [accepted] [eligible] cost of the Project	\$300,000
Grant maximum amount	\$300,000
Total amount received to date by the coordinator from the donor	\$272,727.00
Financial Statements Subject to the Audit	November 20, 2023, to April 30, 2024
Auditor	<b>Name and address of the audit firm and names/positions of the auditors or /single auditor</b>

## B. Base Terms

### II. General Information

These terms of reference (ToR) are prepared for the assignment of an external Auditor/Audit Company.

The EM23-106 guidelines of the funding program “**Winterization Emergency Response for Lebanon (WARM VI)**” provide the possibility of assigning an external independent Auditor/Audit Company for the (Coordinating Office) funded projects and programs to verify the use of the funds in the project implementation country.

The purpose of this Project Agreement (“Agreement”) is to fulfil the obligations as fiduciaries, to establish a clear understanding of each party’s obligations, and to describe the standards for programmatic evaluations, financial reviews/audits, or other possible reviews.

### III. Definitions

In these TOR and its Annexes which form an integral part of this TOR, the following terms apply:

- “**Audit**” -> In general, this refers to the audit of procedures, activities, outcomes, and internal control systems. This involves the fulfilment of or compliance with defined requirements and standards.
- “**Auditor**”-> refers to the audit firm contracted for the audit services and in particular to the partner or other person in the audit firm who is responsible for the engagement and for the report that is issued on behalf of the firm, and who has the appropriate authority from a professional, legal, or regulatory body.
- “**Audit report**” ->the report carried out by the Auditor.
- “**Audit Service Contract**” ->contractual document (legal commitment) signed between the Entity and the external Auditor/Audit Company, and which constitutes the specific legal basis for the audit services of the external Auditor. These terms of reference and the Annexes of the ToR also form part of the Service Contract.
- “**EM23-106 (WARM VI) Grant Agreement** (-> refers to the agreement signed between the ADRA International (Coordinating Office) and ADRA Lebanon (Implementing Office) recipient of the funds/agreement partner.
- “**Contractual Conditions**” -> refers to the EM23-106 (WARM VI) guidelines, rules, and criteria that are set out in the EM23-106 (WARM VI) funded grant agreement and its annexes for projects under the Project Implementation Contract signed between ADRA International and ADRA Lebanon
- “**Coordinating Office**” ->is the title of the non-profit organization based in the USA that has received USD funding for the implementation of a project The Coordinating Office is.
- “**Network Funding**” -> refers to the Pooled ADRA Support Offices funding indicated in EM23-106 of the grant agreement.
- “**Entity**”-> refers to the legal entity that is receiving the funds from the Prime Recipient and is subject to audit. The entity subject to this audit is ADRA Lebanon. It is the organization responsible for implementing the Project, which is using the funds for the Project, and which is required to report on the Project and the use of funds.

- **“Project”** -> refers to the project subject to audit as described in Section VI (Scope) of this TOR. The Project is entitled Tackling & Eliminating All Kinds of Child Labour through Education in Emergency Help (WARM VI).
- **“Project Implementation Contact”** -> refers to the Contract signed between the prime recipient of the ADRA Network grant and the Entity as the implementing partner of ADRA Lebanon and who is subject to audit.

#### IV. Subject of the Engagement

The subject of this engagement is the audit of the final Financial Statement(s) in connection with the Grant Agreement. As per the EM23-106 Grant Agreement and Project Implementation Contract with the Prime-Recipient of the Grant, the Entity has to carry out the Audit in one term:

- The final audit of the project concerns the period of Life of the Project (LOP) covering <November 20, 2023, to April 30, 2024>.

The Entity intends to engage one independent external auditor for the term of Project Audit with the following key deliverables:

- Audit report.
- Management letter
- Report on factual findings.

#### V. Objective

1. The Auditors' primary task is to verify the expenditure of EM23-106 project funds to ensure that expenditure is supported by appropriate documentary evidence, that complies with the EM23-106 Grant Agreement and ADRA International Project Implementation Contract:
  - Verification that relevant financial procedures are suitable designed and operating effectively
  - Verification of sound financial management and accuracy of bookkeeping based on original vouchers
  - Verification that the financial statements provide a true picture of the project's finances
  - Verification of plausibility of expense items
  - Verification that the use of funds is by the objectives and results as outlined in the project proposal
  - Verification of compliance of expenses with budget items
  - Verification that the relevant procedures have been applied following the agreement with ADRA International
  - Verification of stamping of the original voucher.

2. The Auditor must seek evidence on a sample basis and by the principles of legality and regularity.
3. Where expenditure is not supported by sufficient documentary evidence, or where it is not properly incurred, the Auditor has no discretion; he must report the matter and the amounts as a proposed disallowance. The subsequent decision as to whether to issue a recovery order is one made by ADRA International after considering all known facts/mitigating circumstances leading to the provisional disallowance as reported by the auditor. The Auditor plays no part in the decision on whether to issue a recovery order.

## VI. Scope of Work and Reporting

1. The Audit will be performed at the ADRA Lebanon Office. The Auditor should confirm the location(s) for the Audit with the Entity before the start of the Audit and ensure that relevant supporting documents as well as key staff will be available during the Audit.
2. The audit shall be carried out by the standards specified in these terms of reference. It shall include such tests and verification procedures as the Auditors consider necessary under the circumstances and:
  - ISA 805 (Revised), Special Considerations–Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.
  - By the International Standard on Related Services (‘ISRS’) 4400 Engagements to perform Agreed-upon Procedures Regarding Financial Information as promulgated by the IFAC; in compliance with the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, ADRA International requires that the Auditor also comply with the independence requirements of the Code of Ethics for Professional Accountants (the IESBA Code) issued by the International Ethics Standards Board.

## VII. Engagement Context

1. The Auditor should obtain a preliminary understanding of the engagement context based on these TORs. This TOR and its Annexes contain key information including the reason for the audit, logistics, the Contractual Conditions for the Project, the Entity, and the Project subject to audit, other information, contact details, and key documents. The term ‘Contractual Conditions’ refers to the EM23-106 (WARM VI) guidelines, conditions, rules, and criteria that are set out in the EM23-106 (WARM VI) grant. Furthermore, it refers to the Project Implementation Contract signed between ADRA International, and the Entity. The Contractual Conditions for this Project are set out in:
  - The EM23-106 (WARM VI) Grant Agreement signed by (Coordinating Office) and ADRA Lebanon on December 07, 2023.
  - Financial Reports
  - Conditions for Eligibility of Expenditure

If Contractual Conditions are not clear the Auditor should enquire for clarification of the Entity or.

## 2. Planning, procedures, documentation, and evidence:

The Auditor should perform the audit following the procedures described below, which cover documentation and evidence, planning, fieldwork, and reporting. The Auditor should exercise due professional care and judgment and determine the nature, timing, and extent of audit procedures to fit the objectives, scope, and context of the audit.

### (1) Planning

#### (a) Preparation of the Audit, Planning Activities

The Auditor must prepare the audit so that it is performed effectively and efficiently and agree on the timing for carrying out the audit, notably about fieldwork. The Auditor will then also confirm with the Entity the location(s) and ensure that relevant supporting documents as well as key staff will be available during the audit. Adequate planning involves that appropriate attention is devoted to important areas of the audit, that potential problems are identified and resolved on a timely basis, and that the audit is properly organized and managed to be performed effectively and efficiently.

The Auditor should have an audit plan documenting the audit approach and key principles of planning, fieldwork, and reporting.

#### (b) Preparatory Meeting with the Entity

The Entity foresees a preparatory meeting with the Auditor which will be held by conference call or in person. The purpose of this meeting is to discuss the planning, fieldwork, and reporting of the audit and to clarify outstanding issues. During the preparatory meeting, the Auditor may request additional information and documents that he/she/it considers necessary or useful for the planning and fieldwork of the audit.

### (2) Fieldwork

The fieldwork shall commence as soon as possible and not later than 5 calendar days after the signature of the Service Contract. The main task during the fieldwork will be to perform substantive tests. Key information about the testing process must be provided in the Audit report (Annex 2 Appendix 3 to Annex 2). The Auditor shall also pay attention to section VI paragraph 5 of these terms while conducting the Audit.

### (3) Draft Report and Closing Meeting

At the end of the fieldwork, the auditor shall create the draft report and organize a closing meeting with the Entity to discuss the findings, obtain its initial comments, and agree on additional information to be provided.

### (4) Audit Documentation and Evidence

The Auditor shall prepare audit documentation and obtain sufficient appropriate audit evidence to support audit findings and to draw reasonable conclusions on which to base the audit opinion. The Auditor shall use professional judgment to determine whether audit evidence is sufficient and appropriate taking into account the Contractual Conditions.

### (5) Audit Report and Management Letter

The auditor is expected to present an audit report and a Management Letter. The Auditor should submit to the Entity one portable document format (PDF) copy and three (3) original copies of

the Audit Report in English for the ADRA International (Coordinating Office) funded project. The Entity will forward the original report to ADRA International for processing.

b) Conduct of the Audit

In conducting the Audit, the Auditor shall:

- (1) Carry out tests of transactions as necessary, to obtain an understanding of the accounting system, to assess its adequacy as a basis for the preparation of the financial statements, and to establish whether adequate records have been maintained as required by ADRA International regulations and/or financial rules of the EM23-106.
- (2) Conduct an in-depth review of the internal control systems to have sufficient knowledge of the procedures underpinning the systems
- (3) Confirm that funds have been used following the applicable rules of the EM23-106 and that they have only been used for the purposes for which they were intended and by the conditions under which the funding was provided
- (4) Confirm that Goods and services financed have been procured following sound procurement procedures set out in the [EM23-106](#) procurement guidelines and ADRA International Procurement Policy
- (5) Verify
  - (a) that the expenditure verification is in line with the EM23-106 Grant Agreement and Project Implementation Contract (including all Annexes thereto).
  - (b) that it is evident from the bookkeeping records and the audit of accounts that the expenditures are covered by the revenues, and it must thus be verified that there is no duplicate financing by external funding bodies.
  - (c) that transactions are supported by reliable invoices, receipts, and supporting documents.
  - (d) the eligibility of expenses given the starting date of the monetary expenditure.
  - (e) that transactions have been reviewed and authorized by appointed personnel.
  - (f) that all expenses are recorded in the Entity's accounts and are backed by originals of supporting evidence
    - to audit the proper bookkeeping,
    - to audit the accounts based on original vouchers,
    - to cancel the original vouchers,
    - to audit the plausibility of expenditures,
    - to assign expenditures to the items in the cost schedule
    - to audit the overall conduct of business.
  - (g) that financial transfers (bank, cash) are understandable and in line with the reported expenditures.
  - (h) that where special accounts have been used, they have been maintained following the provisions of the relevant EM23-106 and Agreement/Project Implementation Contract.

- (i) that each set of accounts contains a clear description of cash flows that are documented in the form of currency exchange confirmations and bank statements.
- (j) that if any interests have been generated in the Entity account.
- (k) that the awarding of sub-contracts for delivery and supplies, work, and services comply with the relevant procurement procedures established by the donor.
- (l) that purchased goods are listed correctly in the inventory list.

3. The Auditor will report to any attempt by the Entity to restrict the scope of the Audit or any lack of cooperation on the part of the Entity. The Auditor will consult on what action may be required, whether or how the Audit can be continued, and whether changes in the Audit scope or the timetable are acceptable.

### VIII. Responsibilities of the Entity

1. The Entity is responsible for preparing Financial Statements for the Project financed by the Grant Agreement in compliance with such agreement and providing them to the Auditor, and for ensuring that these Financial Statements can be properly reconciled to the Entity's accounting and bookkeeping system and the underlying accounts and records. Notwithstanding the procedures to be carried out, the Entity always remains responsible and reliable for the accuracy of the Financial Statements. The Financial Statements in this context refer solely to the Appendix to the Auditor's Report by which the Entity reports costs incurred under the Grant Agreement.
2. The Entity is responsible for the factual statements that will enable the Auditor to carry out the procedures specified and will provide the Auditor with a written representation letter supporting these statements, clearly dated, and stating the period covered by the statements.
3. The Entity accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Entity providing full and free access to the Entity's staff and its accounting and other relevant records.

### IX. Financial Statements

The Financial Statements to be audited, among others, include

1. a Statement of Income and Expenditure,
2. a Statement of Financial Position (cash and bank balances)
3. the Accounting Policies Adopted and Explanatory Notes,
4. the Financial Reports compliant with the terms and conditions of the [EM23-106 Grant Agreement](#)



#### X. Audit Report(s)

1. The Auditor shall report on his factual findings and recommendations by the requirements of these Terms. The report shall be objective, clear, concise, timely, and constructive. The use of Appendix 1 (“Statement of application of funds” -template) and 2 (“Audit Report”) to Annex 2 is compulsory. The Report shall be written in English. One report for each of the three Audits is required.
2. The Auditor agrees to a disclosure of his report to ADRA Lebanon and in connection with the requirements as set out in the Grant Agreement with the provision that the report will be disclosed in complete, unabridged form including all its attachments.
3. The Contractor shall ensure that the audit reports are neatly and legibly compiled containing adequate documentation to demonstrate the nature and extent of the Auditing Services and containing sufficient audit evidence to support all audit conclusions, findings, and opinions.
4. The Contractor shall deliver to ADRA Lebanon an electronic copy of the audit reports.
5. Where the audit reports can only be read with the use of the Contractor’s proprietary software, the Contractor will ensure a version of the software is available upon which the reports can be accessed for 10 years from the date of the submission date of the first report.

#### XI. Management Letter

The Auditor shall prepare a management letter, in which the Auditor shall:

- Give comments and observations on the financial/accounting records, systems, and controls that were examined during the Audit.
- Identify specific deficiencies or areas of weakness in systems and controls and make recommendations for their improvement.
- Communicate matters that have come to his/her attention during the Audit which might have a significant impact on the implementation of the project.
- Give comments on the extent to which outstanding issues/qualifications issues have been addressed.
- Give comments on previous audits’ recommendations that have not been satisfactorily implemented.
- Bring to the recipient’s attention any other matters that the Auditor considers pertinent, including ineligible expenditures.

Ideally, the management letter should also include responses from the implementing Entity to the issues highlighted by the Auditor.

#### XII. Follow-up

The Entity may request the Auditor for further assistance in the contradictory procedures and the follow-up of the final audit report. This is not covered by these TORs and if this is required the Entity will issue an addendum to the applicable contractual document for this engagement.

#### XIII. Compliance with applicable law

The Auditor, at the time of submitting the offer and beyond over the years of the assignment, if awarded, must comply with applicable environmental, social, and labor law obligations established by Union law, Lebanese legislation, collective agreements, or the international

environmental, social security and labor conventions. The same compliance must be verified about fiscal matters.

#### XIV. Fraud, corruption, irregularity, etc.

1. If, during an audit engagement, the Auditor or any of the Auditor employees detect possible fraud, malfeasance, breach of statutory requirements, or material discrepancy of any nature, the Auditor shall immediately report the facts of the matter.
2. Immediately upon becoming aware of any matter that the Auditor suspects on reasonable grounds concerns or may concern corrupt conduct the Auditor shall in writing inform and make known the matter to.
3. The Auditor shall not give any advice or information regarding the matter to any person whatsoever in the absence of written directions from or unless otherwise required by law.

#### XV. Other Matters

1. The Auditor shall not subcontract without prior written authorization from ADRA Lebanon.
2. Support/Overhead Calculation: ADRA Network-funded emergency project budgets include a line item for **Implementing Office Support** up to a **maximum of 10% of Direct Costs**. The final amount paid as support is based on 10% of the actual direct costs expended by the implementing office – limited to 10% of the maximum amount approved in the budget for direct costs.
3. Final Project Balance Calculation: The final project balance is the difference of funds received by the project minus what was expended (including overhead). Should funds received exceed funds expended, the country office is obligated to return those funds to the largest donor office/donor institution. The final project balance is not Budgeted Amount minus Actual Expended.

#### XVI. Terms of payment, Insurance, and Liability modalities for Auditors

The terms of payment and liability modalities for auditors will be defined in the Audit Service Contract.