

Terms of reference

Introduction

These Terms of reference cover the audit of the financial statements for the project “*Developing Economic Empowerment and Protection (DEEP) for Vulnerable Refugees and Host Communities*”. The audit includes both the financial audit as well as the compliance and performance audit of the project.

The audit will cover financial statements for the period 01-01-2024 to 31-12-2024

Background

Description and background of the activities

Through the interventions proposed under the DEEP project, NEF and DOT Lebanon will support socio-economic development and enhance protection and mental health for vulnerable refugees and local communities, working to increase the self-reliance and resilience of various groups with an emphasis on the participation of women. By providing multi-sectoral, holistic services, the project aims to improve economic as well as psychosocial well-being using a rapid-response approach, tailored to the current circumstances, and in line with the Lebanon Crisis Response Plan (LCRP). Hence, the project contributes directly to helping vulnerable refugees and local communities in Lebanon access rights, earn an income in a safe way, secure job and employment opportunities, and enjoy increased safety and enhanced self-reliance through durable and sustainable solutions. The project also supports the partner civil society organisations in improving their capacities through a structured capacity-building plan based on a thorough institutional capacity assessment.

Building on the ongoing programmes of NEF and its partners and addressing the escalating challenges in the current environment, the overall project objective is: **“Improved self-reliance and resilience of vulnerable refugees and host communities through the creation of safe and sustainable livelihood opportunities and the support of an enabled civil society”**. The DEEP project will enable vulnerable refugees and host community members access to sustainable income generation activities, financing, decent job opportunities, protection, and MHPSS services. Activities will prioritise the participation of women (at least 60%) and ensure the inclusion of People with Disabilities (PwD), supporting them with durable skills, job opportunities, and sustainable income generation. The project addresses protection and livelihoods for the most vulnerable, empowering them to enjoy their rights, access basic services and needs, become self-reliant, and live in dignity—while building skills in line with the demands of a changing labour market. DEEP will also strengthen the capacities of the CSOs delivering services to their vulnerable constituencies, making them more sustainable and effective in helping community members meet their basic needs —mainly economic and psychosocial.

The project will support the beneficiaries in improving their economic self-reliance, their resilience against future shocks, provide them with employment opportunities, help them to cover their HH expenditures from additional income, eliminate and/or decrease their harmful coping mechanisms, improving their sense of safety, well-being, and agency (particularly for women) and supporting NGO/CSOs to strengthen their capacities in delivering quality programmes.

Description of the objectives and the actions of the activity

The project interventions, or components, are organised around five intermediary outcomes (Outcomes 1, 2, 3, 4, and 5) that will contribute towards the overall project goal:

Outcome 1: *Supported SMEs create decent job opportunities.* Under Outcome 1, the project will create jobs within the private sector by engaging and supporting existing small and medium enterprises (SMEs) through technical support and grants to create sustainable and decent employment opportunities.

Outcome 2: *Vulnerable Refugees and host communities have increased sustained income through employment.* Under Outcome 2, the project will engage vulnerable refugees and host community members in tailored and specialised digital training that leads to employment through the provision of job placement and private sector internships – thereby helping participants access global and local digital labour opportunities and grow in skills/career path while securing a source of income.

Outcome 3: *Vulnerable households generate complementary or alternative income.* Under Outcome 3, the project will help provide income generation opportunities for vulnerable groups through a) establishment or expansion of nano, small, and medium enterprises (NSMEs) to secure sustained future income with proven livelihoods services that build business resilience and promote growth; b) offer freelance opportunities using an impact sourcing platform that provides high-quality digital services executed by skilled freelancers from marginalised communities in Lebanon (trained by DOT Lebanon).

Outcome 4: *Vulnerable beneficiaries, particularly women, participating in employment or income-generating activities benefit from protection services.* Under Outcome 4, the project will support vulnerable individuals from livelihoods interventions (outcomes 2 and 3) with protection and MHPSS services to improve their well-being, reduce harmful coping mechanisms, minimise stress and anxiety, adopt healthy problem-solving solutions, and increase self-confidence and decision making—recognising the interrelated dependencies of economic and psychosocial stress.

Outcome 5: *National civil society organisations have enhanced institutional capacity to deliver a quality response.* Under Outcome 5, the project will support capacity building/training action plans to develop the Civil Society Organisation (CSO) partners' abilities to address community needs, enhance their internal procedures and processes through Digital Transformation activities such as working on their social media marketing; and strengthen procurement, M&E, finance, and HR systems. It will also provide training and mentorship to DOT Lebanon to expand its Business Development and establish Protection and MHPSS programming.

Description of the implementing partner

NEF has worked continuously in the Middle East since 1915, with programming in Lebanon since 1918. NEF became a registered NGO in the country in 2005 and established its permanent presence in 2015. With funding from private foundations and the Bureau of Population, Refugees and Migration (BPRM) of the U.S. Department of State, NEF has been delivering the *Reducing the Vulnerability of Syrian Refugees and Lebanese in Lebanon* (RVL) programme since 2016 **using NEF's unique, successful, and cost-efficient 'Siraj' model:** community-based centres offering full-cycle entrepreneurship and complementary services. The RVL programme has had a tangible, sustained impact on the livelihoods of thousands of vulnerable refugees and Lebanese women and men. Siraj Centres deliver a package of services comprising business development (BD), protection and mental health, life skills and vocational training, financial grants, and other support. Since 2015, NEF has built skills of vulnerable Lebanese and Syrian refugees (70% women) and other people of concern to assist them in developing home-based productive activities and supported **21,799** individuals to access services and information, gain new skills, and create sustainable livelihoods opportunities. Of the 8,500 individuals trained on business development and protection, 85% (**7,230**) have developed

viable business plans and received grants¹. Some 90% of participants started/launched a business; 74% increased their income by 2.3x (average) per year, with 59% reporting that business sales have contributed to reducing household debt by an average of 447 USD within six months. In addition, 72% of individuals have stated that the programme helped decrease their use of harmful coping mechanisms and increased their ability to meet basic needs². NEF's 2022 endline data showed an average of 85% of supported women reported greater self-confidence and agency. Based on a five-year study of NEF Lebanon's Siraj programme, 68% of businesses created with Siraj support have continued to generate profit. Moreover, 11% of supported businesses have created employment for 892 other individuals (NEF Impact and Learning Study 2021)³. In Lebanon, NEF mainly supports home-based businesses (average 70%), which receive limited support from other actors.

Objective

Based on the financial information and other information provided by the Near East Foundation (NEF), the MFA will determine whether all legislative and regulatory requirements linked to the funds granted have been complied with.

The overall objective of the audit is to provide the MFA with confidence in financial information provided to the MFA by the Near East Foundation. By providing an opinion on the financial statements, and by reporting findings and observations, the audit company provides part of the basis on which the MFA will assess the compliance of relevant legislative and regulatory requirements.

The objective of the financial audit is to obtain reasonable assurance whether the funds granted through the MFA are free from material misstatement. Based on the audit evidence obtained, the objective is thereby to express an opinion on whether the financial statements are free from material misstatement.

The overall objective of the compliance audit is to obtain reasonable assurance whether transactions covered by the financial statements comply with the appropriations granted, statutes, other regulations, agreements, and usual practice. Similarly, the objective of the performance audit is to make an assessment to obtain reasonable assurance whether the systems, processes, or transactions examined support the exercise of sound financial management in the administration of the funds granted through the MFA.

The audit will also aim to provide the Near East Foundation with an external assessment of the financial capacity and established business processes. This includes providing observations and recommendations as part of the audit.

Scope

The scope of the audit includes a financial audit as well as a compliance and performance audit.

The financial audit must be carried out in accordance with International Standards on Auditing (ISAs). Other frameworks of auditing than ISAs are accepted as a basis for the audit, provided these frameworks result in an audit equivalent to an audit planned and performed according to the ISAs

¹ Appendix 6b: NEF Lebanon Fact Sheet 2023

² Appendix 6a: NEF Lebanon Fact Sheet 2022

³ Appendix 6e: NEF Lebanon Impact and Learning Study 2021

and ISSAIs. This will require the audit company to plan and perform procedures based on risk assessment and materiality.

Therefore, the audit company must:

- Identify and assess risks of material misstatement of the financial statements, whether due to fraud or error. Based on the risks identified, the auditor must design and perform relevant audit procedures to obtain sufficient and appropriate audit evidence to serve as the basis for the auditor's opinion.
- Obtain an understanding of the internal controls relevant to the audit in order to design appropriate audit procedures. The purpose is not to express an opinion on the effectiveness of the internal controls. In relation to funds granted through the MFA, these controls pertain in particular to costs, including costs related to activities funded by the MFA, recognised in the financial statements.
- Evaluate the appropriateness of the accounting policies used in the financial statements, including the reasonableness of estimates and related disclosures. In relation to funds granted through the MFA, this is particularly relevant for accounting policies regarding project costs.

The specific audit procedures that may be relevant for the financial audit are specified further below.

The performance and compliance audit must be carried out in accordance with relevant International Standards of Supreme Audit Institutions (ISSAIs).

Therefore, the audit company must:

- Examine and evaluate the functioning of management systems and business processes with special consideration to compliance and the principle of economy.
- Gain an understanding of the audited entity and its environment to identify relevant regulation and legislation.
- Consider the necessity and relevance to perform test of details regarding compliance and the principle of economy, effectiveness, efficiency.
- Evaluate and conclude on audit findings and prepare communication.

The specific audit procedures that may be relevant for the performance and compliance audit are specified further below.

The audit must be planned in order to facilitate the timely submission of audited financial statements in accordance with [relevant guidelines]. This means that the audit is expected to take place in the period 15-01-2025 to 30-03-2025.

Specific procedures

The audit company must plan the audit in accordance with their risk assessment. The extent and nature of planned procedures will therefore be subject to the professional judgement of the audit company. It is the audit company's responsibility to plan the necessary procedures to obtain sufficient

and appropriate audit evidence to form the opinion of the audit. However, the procedures listed below are considered to be a minimum in order to form an opinion for the audit.

As a result, the audit company is expected to perform the listed procedures as well as plan and perform further procedures, if this is deemed necessary according to professional judgement.

General procedures to be performed in regard to the audit process

The audit company must

1. On a timely basis, submit a complete schedule for the audit process, including dates for interim audit, year-end audit, on-site visits, field visit and reporting.
2. Submit detailed specified requirements for the audit 15 days ahead of the audit to ensure the timely preparation of accounting material necessary for the audit
3. Based on the knowledge obtained in the planning phase, determine a materiality level in accordance with ISA 320.
4. Perform interviews, observations, inspections of documents, and walk-throughs of processes to assess the internal control capacity, including:
 - a. Control environment
 - b. Design and implementation of key controls
 - c. Operational effectiveness of key controls, if tested
5. Perform walk-through of processes and routines as well as interviews to assess accounting and financial capacity, including:
 - a. Employed accounting system
 - b. Use of manual spreadsheets to record entries
 - c. Mapping the applied chart of accounts to the approved budgets
 - d. Underlying documentation to support recorded entries
6. Identify, evaluate and report on all material observations and findings using management letter. Please refer to the Deliverables sections of these Terms of Reference.

Specific procedures to be performed in regard to financial audit

The audit company must:

1. Confirm and reconcile amounts received from the MFA.
2. Perform substantive testing on a sample basis of expenditure to verify proper allocation to the appropriate budget lines against the approved budget.
3. Perform substantive testing on a sample basis to verify the existence of valid third party supporting documents relating to reported expenditure.
 - a. The sample size shall be based on the audit company's professional judgement and should be stated in the methodology description related to the audit.

- b. All instances of any missing supporting documents must be reported, including the amounts in question.
- 4. Perform substantive testing on a sample basis of the fixed asset list included in the financial statements as part of the reporting requirements to verify the existence and valuation of assets.
- 5. Perform procedures to verify the occurrence of transactions related to:
 - a. Any interest earned during the financial period.
 - b. Any exchange gain/losses recorded in the accounts.

Specific procedures to be performed in regard to performance audit

The audit company must:

1. Test of controls related to performance audit
 - a. Perform interviews and walk-throughs to gain an understanding of the business processes.
 - b. Identify key controls related to performance. These controls may include:
 - i. Authorisation in connection with the procurement of goods and services.
 - ii. Budget reviews and follow up on costs.
 - iii. Managements review of finalised procurement processes.
 - iv. Monitoring reviews including evaluation of progress compared to activity description.
 - v. Managements review of benchmarks for completion or equivalent.
 - c. Perform test of design and implementation of identified key controls.
 - d. Depending on audit strategy, perform test of the operational effectiveness of controls.
2. Substantive testing on a sample basis
 - a. Determine relevant audit criteria for the audit in relation to economy, effectiveness or efficiency. The audit criteria can be qualitative or quantitative, focusing on what is expected or best practice. These may include:
 - i. The quality in which the activity is delivered or completed compared to the description of the activity.
 - ii. The quantity of items completed or delivered compared to the description of the activity.
 - iii. Cost of procured goods or services compared to expected prices.
 - iv. Compliance with established procedures for procurement of goods and services, for instance the number of quotations received.
 - v. The level of entertainment costs and travel costs compared to expected levels or levels with peers.
 - vi. Proper handling of assets, including liquid assets and fixed assets.
 - b. Perform tests on selected audit criteria and evaluate on findings and conclusion.

3. To ensure economy in salary levels, perform test on a sample basis of established policies and procedures for compliance, specifically regarding allowances, advances, staff recruitment/salary scales, and other accounting routines.
4. Analytical procedures
 - a. Identify relevant ratios as indicators for economy, effectiveness or efficiency. These ratios may include:
 - i. Ratios between direct costs and output
 - ii. Ratios between administrative costs and output
 - iii. Ratios between scarce resources and output
 - b. Perform analytical reviews of the development of ratios over time.

Specific procedures to be performed in regard to compliance audit

The audit company must:

1. Examine, assess, and report on compliance with the terms and conditions of the Partnership agreement or equivalent with the MFA and other donors, if relevant.
2. Gain an understanding of the legislative and regulative environment in which the entity exist.
 - a. Assess compliance with applicable laws and regulation with special attention to legislation regarding accounting and taxes.
3. Gain an understanding of the processes established to ensure compliance with applicable laws and regulations regarding employment of staff. This includes relevant labour legislation as well as regulation regarding social fees, pension, holiday, sick leave, and maternity leave.
4. Reconcile budget amounts included in the financial statements against the approved budget.
5. Test on a sample basis that activity funded by grants through the MFA is not funded from other sources as well.

Deliverables

The independent auditor's opinion

Conclusions of the financial audit must be presented in the independent auditor's opinion. The independent auditor's opinion should be prepared in English in accordance with ISA 800 and must refer to these terms of reference for the audit. The auditor's opinion shall include the following elements:

- The auditor's opinion on the financial statements and whether these are prepared in all material respects in accordance with financial provisions applicable
- Identification of the financial statements audited, including title of the activity and the financial period
- Reference to the applied accounting policies used in preparing the financial statements
- Reference to these terms of reference for the audit

- Sections and paragraphs in accordance with ISA 800

Any qualifications should be clear and stated with correct headlines in accordance with relevant ISAs.

The audit report

Conclusions on the compliance and performance audit must be presented in the audit report. The audit report should be prepared in accordance with applicable ISSAIs and must refer to these terms of reference for the audit. The audit report shall include the following elements:

- Conclusions in relevance to specific audit questions or procedures
- Identification of the financial statements audited, including title of the activity and the financial period
- Description of scope of the audit (and possible limitations), including key procedures performed.

Depending on the chosen report method, the audit company can choose to include management letter content in the audit report or issue a separate management letter. If the former is chosen, the audit report shall contain the following elements as well:

- Findings and observations made from the audit with indication of severity or risk level.
- Description of the effect or risk derived from the finding or observation.
- Recommendations to address the findings or observations and management's comments to findings and observations.

Management letter

Findings or observations that are not material to financial statements as a whole, but considered to be of relevance to either management or the MFA, must be reported in a management letter. Such findings or observations may include, but are not limited to:

- Deficiencies or weaknesses in internal control or business processes
- Lack of compliance with applicable laws or regulation
- Lack in financial capacity or financial systems
- Identified reconciliation items
- Budget overruns

The management letter must be prepared in English as part of the audit and submitted together with the audited financial statements.

The management letter shall, for each finding or observation, include:

- A description of the finding or observation with indication of severity or risk level
- Description of the effect or risk derived from the finding or observation
- Recommendations to address the finding or observation
- Management's comments to the effect or risk as well as the recommendations.

Audit methodology

- Summary of the audit approach and applied audit strategy
 - o This includes the considerations made to the control environment
- Significant risks identified
- Description of tested controls
- Materiality level

- Issues related to fraud (if applicable)
- Sample sizes relative to population (% of tested expenditure (Expenditure Coverage Ratio))
- Distribution of samples on different sites, activities, offices, or other locations
- Conclusions from interim and other visits
- Identified bias or accounting estimates

Closing meeting

As a conclusion of the on-site visit, the audit company must participate in a closing meeting with the implementing partner and a representative from the MFA and other donors, if relevant. The objective of the meeting is to discuss any relevant findings and observations with management and donors to settle details or open items. The closing meeting must be recorded in minutes drafted and signed by all participants.

The audit company must also participate in a final closing meeting with donors before the submission of the final versions of the conclusions of the audit. The objective of the meeting is to discuss the final reporting, conclusions and recommendations of the audit, which must be presented by the audit company.

Time table for the audit

Time	Activity
02-01-2025	Acceptance of Terms of Reference for the audit
15-01-2025	Submission of planning memorandum/submission of Annual Financial report to auditors
01-02-2025	Performance of year end audit including on-site visits
01-02-2025	Performance of year-end audit Closing meeting, on-site
15-02-2025	Answer any remaining audit questions
01-03-2025	Submission of draft versions of: Opinion, audit report, ML, ASM Closing meeting, MFA
15-03-2025	Submission of final versions of: Opinion, audit report, ML, ASM