

TERMS OF REFERENCE FOR THE ANNUAL AUDIT OF PROJECT AND PROGRAMME SUPPORT INCLUDING ISRS 4400

The audit shall be carried out in accordance with International Audit Standards (ISA) issued by IAASB¹. In addition, an assignment according to International Standards on Related Services (ISRS) 4400 shall be carried out. The audit and the additional assignment shall be carried out by an external, independent, and qualified auditor.

I. INTRODUCTION

Diakonia is an organization registered in Sweden under registration number 802017/3517; registered office at Gustaveslundsvägen 18, Alvik Torget, 16714 Bromma. Diakonia has its regional office Middle East and Africa (MENA) located at the same registered address. Swedish International Development Cooperation Agency (SIDA) is an organization registered under registration number 202100-4789, 105 25 Stockholm Sweden.

Diakonia submitted an project application to SIDA for grant for humanitarian assistance needs in MENA region. SIDA approves the application and awarded the project to Diakonia. Accordingly Diakonia and SIDA entered into partnership for implementing project “Promoting Humanity in armed conflicts 2022-2024” Project number 15040. This project is signed on 31 of Jan 2022. Diakonia is self implementing the Grant agreement “Promoting Humanity in armed conflicts 2022-2024” Project number 15040 signed between Swedish International Development Cooperation Agency (SIDA) 105 25 Stockholm Sweden and Diakonia SW Gustaveslundsvägen 18, Alvik Torget, 16714 Bromma, Sweden. The total budget for three years is 45 MSEK.

Diakonia is implementing this project by it self through its regional offices in Middle east and Affrica, MENA region with Country office Lebanon, Country office Jerusalem and Country office Mali, where as two other virtual offices Global Desk and IHL secretariate are also separate budget holder under this grant with their own activities.

The parties to this ToR are Diakonia MENA Regional office, and country office for Lebanon.

Diakonia will procure an audit of the project Diakonia Global International Humanitarian Law Programme – IHL Resource Desk for Lebanon, for the period 1 January 2022 – 31 December 2024. The audit of the financial report shall be performed in accordance with the International Standards on Auditing ISA.

II. THE SCOPE OF WORK AND PURPOSE OF THE AUDIT

The audit concerns the financial report for the project Diakonia Global International Humanitarian Law Programme – IHL Resource Desk for Lebanon for the period 1 January 2022 – 31 December 2024.

The purpose of the audit is to express an audit opinion in accordance with ISA 800/805 on whether the financial report of the project support is in accordance with the terms and conditions in the Agreement between the Sida and Diakonia, 31st of January 2022.

III. THE AUDITOR’S REPORTING

The reporting shall be signed by the responsible auditor (not just the audit firm²) and shall include the title of the responsible auditor.

¹ The International Auditing and Assurance Standards Board (IAASB)

² If the audit firm is obliged to sign, refer to relevant legislation. Diakonia needs to know who has been responsible for the audit assignment.

The Independent Auditor's report

The auditor's reporting shall include an independent auditor's report in accordance with the ISA 800/805 and the auditor's opinion shall be clearly stated.

The financial report that has been the subject of the audit shall be attached to the audit report.

The Independent Auditor's report should cover whether the project's or program's:

- Financial report gives a true and fair view of the activities of the project
- Whether the implementation has complied with the rules and conditions governing the use of funds as stated in the Agreement
- Financial reporting has been done as per agreement and that the funds are included in the Diakonia's accounting

The Management Letter

The audit reporting shall include a Management Letter that discloses all audit findings, as well as weaknesses identified during the audit process. The auditor shall make recommendations to address the identified findings and weaknesses. The recommendations shall be presented in priority order and with a risk classification.

Measures taken by Diakonia to address weaknesses identified in previous audits shall also be presented in the Management Letter. If the previous audit did not have any findings or weaknesses to be followed-up on, a clarification of this must be disclosed in the audit reporting

If the auditor assesses that no findings or weaknesses have been identified during the audit that would result in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

Diakonia considers the following Cooperation Agreement areas to be of special importance:

- Whether a satisfactory system for financial management and internal control, assessing the effectiveness of policies and procedures in preventing or detecting fraud, is applied
- If the accounting is in accordance with Accepted Accounting Standards in the country or with International Financial Reporting Standards (IFRS)
- Salary costs
- Supporting documentation related to incurred costs
- Compliance with rules and regulations regarding taxes and social security fees
- Procurement
- Signed agreements with contracting partners
- If any sub granting is allowed signed agreements with partner organizations for which funds financing the project have been used verifying compliance with the conditions of the Agreement.

The Independent Auditor's reporting, along with management letter shall be received by Diakonia not later than **April 15th, 2023**. This assumes that the Auditor has been able to start their audit not later than four weeks before the due date of the report, and that the documentation regarding the financial report is complete.

Diakonia shall present a Management Response to the auditor's reported findings, including an action plan with clear deadlines.

IV. TERMS OF REFERENCE FOR AGREED-UPON PROCEDURES ENGAGEMENT, ISRS 4400

The Agreed-Upon Procedures engagement in accordance with International Standards on Related Services, ISRS 4400 concerns review of specific areas under the period of reporting and may concern both financial and non-financial information. The purpose is to review Diakonia's compliance with the Cooperation Agreement for the project concerned, signed between Sida and Diakonia. The size of the samples needed for the review below is based on the analysis of materiality and risk done by the auditor under the ISA 800/805 assignment.

Mandatory procedures that must be included:

1. Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget³
2. Observe and inspect whether the financial report provides information regarding:
 - a. Financial outcome per budget line (both incomes and costs) for the reporting period and columns for cumulative information regarding earlier periods under current agreement.
 - b. When applicable, compare if the opening fund balance⁴ for the reporting period matches with what was stated as closing fund balance in the previous reporting period.
 - c. A disclosure of exchange gains/losses. Inquire and confirm whether the disclosure includes the entire chain of currency exchange from Sida's disbursement to the handling of the project/programme within the organisation in local currency/ies, if applicable.
 - d. Explanatory notes (such as, for instance, accounting principles applied for the financial report).
 - e. Amount of funds that has been forwarded to implementing partners, when applicable.
3.
 - a. Inquire and inspect with what frequency salary costs during the reporting period are debited to the project/programme.
Choose a sample of three individuals for three different months and:
 - i. Inquire and inspect whether there are supporting documentation⁵ for debited salary costs.
 - ii. Inquire and inspect whether actual time worked is documented and verified by a manager. Inquire and inspect within which frequency reconciliations between debited time and actual worked time is performed.
 - iii. Inspect whether Diakonia complies with applicable tax legislation with regard to personal income taxes (PAYE)⁶ and social security fees.
4.
 - a. Inspect and confirm that the unspent fund balance (according to the financial report) at the end of the financial year is in line with information provided in the accounting system and/or bank account.
5.
 - a. Inquire and inspect if the agreed overhead costs are based on a cost recovery model. Obtain information on debited overhead costs within the project and confirm whether the costs are in line with Diakonia's routines for allocating overhead costs to different projects.
 - b. Inspect whether there is a reconciliation between the budgeted amount and the actual costs for overhead on an annual basis.
6. Review, on sample basis, whether Diakonia has adhered to the procurement guidelines annexed to the Cooperation Agreement.
7. Regardless of materiality, quantify the amount of costs missing supporting documents.
8. If Diakonia has third party agreements, inquire and inspect whether there is an unbroken chain of audited financial reports according to the requirements as stipulated in the agreement between Sida

³ The budget is attached to the agreement with Diakonia as an annex and any updates should be supported by a written approval by Diakonia.

⁴ I.e. funds remaining from disbursements made during previous reporting period/s

⁵ Debited salary costs should be verified by supporting documentation such as employment contracts.

⁶ Pay As You Earn

and Diakonia, for funds disbursed the previous year. The inquiry and inspection shall include whether Diakonia makes documented assessments of the audited financial reports submitted to Diakonia and whether these reports are followed-up by Diakonia.

Reporting on Agreed-upon procedures

The additional assignment according to agreed-upon procedures ISRS 4400 shall be reported separately in an "Agreed-upon procedures report".

Performed procedures should be described and the findings should be reported in accordance with the requirements in the International Standard on Related Services 4400.

When applicable, the sample size shall be stated.