

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

### **I. INTRODUCTION**

Diakonia's partner was founded in 1976 by a group of women and then in 1978 was registered with the Ministry of Interior as independent Lebanese social and nongovernmental organization (NGO) with headquarters in Beirut. partner's vision is a Palestinian community enjoying national and human rights, social justice and equality between women and men.

Diakonia's partner shall procure/commission an audit of the financial report of the project that includes financing from Diakonia in accordance with the conditions set in the Cooperation Agreement between Diakonia's partner and Diakonia, dated 2021-11-04.

The Audit Firm and/or the Auditor shall be a member of IFAC.

### **II. THE SCOPE OF WORK AND PURPOSE OF THE AUDIT**

The audit concerns the financial report for the project Diakonia's partner 2021-2023 for the period 2021-01-01 – 2021-12-31.

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 Diakonia's partner's accounting records and the Diakonia requirements for financial reporting as stated in the Cooperation Agreement between the Diakonia's partner's and Diakonia, dated 2021-11-04.

### **III. THE AUDITOR'S REPORTING**

The reporting shall be signed by the responsible auditor (not just the audit firm<sup>2</sup>) and shall include the title of the responsible auditor.

#### **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 programme's:

- Financial report gives a true and fair view of the activities funded by Diakonia.
- 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 the agreement and that the funds are included in the Diakonia's partner'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.

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.

---

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

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 [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 shall be received by Diakonia's partner not later than 31<sup>st</sup> of March 2022. 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.

The organization Diakonia's partner 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 partner's compliance with the Cooperation Agreement for the project concerned, signed between Diakonia's partner 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 to 100% of the expenditures.

1. Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget<sup>3</sup>
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 balance<sup>4</sup> 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 organization 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.  
*Investigate all the samples for the whole period and:*
    - i. Inquire and inspect whether there are supporting documentation<sup>5</sup> 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's partner complies with applicable tax legislation with regard to personal income taxes (PAYE)<sup>6</sup> 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.
  - b. Applicable **the final year**: Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that shall be repaid to Diakonia.
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 partner'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's partner has adhered to the procurement guidelines annexed to the Cooperation Agreement.

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

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

<sup>5</sup> Debited salary costs should be verified by supporting documentation such as employment contracts.

<sup>6</sup> Pay As You Earn

7. Regardless of materiality, quantify the amount of costs missing supporting documents.
8. If Diakonia's partner 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 Diakonia's partner and Diakonia, for funds disbursed the previous year. The inquiry and inspection shall include whether Diakonia's partner makes documented assessments of the audited financial reports submitted to Diakonia's partner and whether these reports are followed-up by Diakonia's partner.

### **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.