

Term of Reference for external Audit services for AA financed projects

Project K-POL-2022-4041

Donor: Diakonie Katastrophenhilfe

Date: 10.01.2024

Partner: Diaconia Poland

1. About DKH

Diakonie Katastrophenhilfe provides humanitarian aid worldwide. It is registered in Germany as *Evangelisches Werk für Diakonie und Entwicklung e.V.* 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 situation 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 and Amman, which coordinates and streamlines the humanitarian aid programmes in the region and provide quality assurance, as well as local Offices in Ukraine and Columbia.

2. BACKGROUND

Provide the following information about the partner:

- **Name of Partner in Poland**

Diaconia of the Evangelical Church of the Augsburg Confession in Poland (Diaconia Poland) is a non-governmental organization. It attained legal status on 10 February 1999 and operates on the entire territory of the Polish Republic. Since 2003 Diaconia Poland has been a member of the Eurodiaconia with its seat in Brussels. Since 2006 the Diaconia Poland has had the status of a non-profit organization.

Diaconia Poland supports dioceses and other Church units by identifying new areas of work in the social sphere; creating and supporting aid institutions; help in creating and preparing projects; cooperating with representatives of social care services, state and local government institutions; social foundations, health insurance funds and national health clinics; cooperating with representatives of the diaconal service of other Christian Churches in Poland and abroad; organizing fund collections for diaconal

purposes; providing training and further training for co-workers and volunteers. Diakonia Poland includes: nursing homes for the elderly and sick, schools and kindergartens, day care centers, day care centers for children and youth - almost 100 institutions in total. There are 1000 employees and the same number of volunteers.

The projects carried out by Diakonia Poland generally address different groups of people in need. The demand comes to Diakonia Poland through parish and diocesan diaconias, but the support is addressed to people regardless of their country of origin, social position and church affiliation.

In recent years, projects have been carried out in the areas such as support for families adversely affected by labor migration, especially; support for people affected by the COVID-10 pandemic: children and adolescents; support for refugees and migrants on the Polish-Belarusian border and support for refugees from Ukraine in Poland.

Project 1:

- **Project information**

Starting from June 2022, Diakonie Katastrophenhilfe (DKH) and Diakonia Poland, with technical assistance of Support to Life (STL), provided **multi-purpose cash assistance (MPCA)** to vulnerable families, who have been displaced from Ukraine to Poland. DKH and Diakonia Poland joined hands to implement the MPCA project. Its aim was to cover basic needs for a period of 3-month, to support those displaced and most in need. Implemented in coordination with the humanitarian actors in Cash Working Group and local authorities, the purpose of this assistance was to cover the immediate needs of vulnerable families in the aftermath of displacement. The project included three waves of assistance:

- 1) A first wave for MPCA from May until September 2022, which targeted most vulnerable refugees mainly in 3 provinces (Kalisz, Ledziny, and Sosnowiec) reaching 7278 families (19632 individuals), receiving 700PLN and each additional member 600PLN.
- 2) A second wave on Cash for Winterization in November 2022, including a one-off winter aid program for beneficiaries amounting to 220 for around 18,000 beneficiaries.
- 3) A third wave for MPCA which targeted most vulnerable refugees in several provinces in Poland and reached around 2633 households (7771 individuals) with 710 and 610PLN.

The MPCA was provided to eligible families after the registration and verification process. Parishes, social services offices, local NGOs and social media were used for the identification and referral of the most vulnerable refugee families. To apply for the assistance, refugees registered themselves into the system through a website and made an appointment to complete their registration at the temporarily established Registration Centers. In those registration centers, all the information provided in the self-registration has been verified by the registration clerks. After the verification process, eligible refugees received their assistance through Conotoxia debit (visa) cards. Monthly cash transfers were made to each card for 3 months with the head of household.

- **The accounting period to be covered by the audit**
Project Period: **01.05.2022 – 30.08.2023**
Project Volume: **14.793.330,17**
Location of audit: **Poland (Warsaw)**

Project 2:

- **Project information**

This second project was set-up to cover operational costs of Diakonia Poland for accompanying all projects financed through Diakonie Katastrophenhilfe and with the aim to support refugees from Ukraine in Poland. These include the multipurpose Cash assistance mentioned above, as well as one shelter project, implemented separately and not being part of this audit. To sum up, this project covered accompanying costs for the following measures:

1) Supervision and support of Lutheran member congregations in Poland in the renovation and equipping of accommodation as well as in the support and counselling of refugees.

1.1) Management of a fund for projects of Lutheran member congregations to support refugees

1.2) Field visits to the project locations.

2) Implementation and monitoring of the cash project

2.1) Setting up registration centres

2.2) Registration of refugees from Ukraine

2.3) Distribution of credit cards

2.4) Topping up credit cards with cash aid

2.5) Setting up a telephone hotline for counselling and as a complaint mechanism for refugee

3) Hiring and supporting a DKH liaison officer

- **The accounting period to be covered by the audit**
Project Period: **01.04.2022 – 31.12.2023**
Project Volume: **812.989,63 EUR**
Location of audit: **Poland (Warsaw)**

3. OBJECTIVE OF THE PROJECT AUDIT

The objective of the audit of the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the project at the end of the project, on funds received and expenditures incurred for the audited project. As the project was implemented in Poland but the financial processes were managed from Germany, the audit should cover both countries.

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. As part of the audit process, the auditor may request from Partnerer abroad written confirmation concerning statements made in connection with the audit "Engagement Letter".

4. 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 standard.

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.

5. 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 rules and regulations of Diakonie Katastrophenhilfe (DKH) and the contractual engagements have been adhered to. These include the:
- Cooperation Agreement;
 - Administrative Procedures;
 - DKH Standards for reporting;
 - Approved budget (cost Plan);
 - national legislation
- 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 of the donor and their 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 that 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 the partner 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 Partnerer 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.

6. 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 on Conotoxia Account;
- b) If relevant, a statement of Expenditures (SOEs);
- c) If relevant 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).

7. STATEMENT OF EXPENDITURES (SOEs) / JOURNAL LISTING

- a) The appropriate exchange rates are used, based on the DKH financial policy if applicable ;
- b) The Exchange Rates Table includes the organization's calculation methods for exchange rates;
- c) The exchange rates in the Exchange Rates Table are the same as those used in the journal listing;
- d) The columns in the voucher lists are filled with all the necessary details required;
- e) In principle, all inspected documents have to be the original copies. Especially, proofs of payments are to be checked;

- f) The items registered as capital assets correspond to those recorded in the inventory listing;
- g) 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;
- h) 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;
- i) Examine partner compliance with rules and regulations with regard to applicable local taxes and social security fees;
- j) Follow up whether the Partner abroad has adhered to any other DKH Financial & procurement guidelines if applicable ;
- k) The total withdrawals under the SOE should be part of the overall reconciliation of Bank disbursements;
- l) The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period;
- 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;

8. 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 by Diakonia Poland from DKH Head office;
- b) Funds that have been administered by DKH;
- c) Interest that may have been earned on the accounts;
- d) Withdrawals related to project expenditures;
- e) Transfers from and to other projects
- f) Account balances at the end of such a period.

9. 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 DKH 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 of the partner 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) Unspent balance per audited project

10. 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.

Ideally, the management letter should also include responses from the partner abroad to the issues highlighted by the auditor.

11. 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.

12. 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 3 weeks.
- Two copies of the audited financial statements including the audit report, management letter and management response should be received by the audited partner 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 partner by either party (with copies of the correspondence to the other concerned party).

13. 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 letter, other communication shall be in local language (Polish) and English.

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 8 & 9 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

16. Requirements

The bidders should provide the following documents in their application.

1. A valid registration certificate and proof of having worked in the 2 Countries of project implementation (Poland and Germany)
2. A Company profile.
3. A financial quote including a breakdown of all the relating costs
4. List of clients served from NGOs in the project region will be an added advantage.

The technical offer with proof of relevant experience in the field of humanitarian aid of the applicant and the staff in charge for the audit should amount to maximum 50 pages.

Interested eligible bidders may send their applications with the above information to franziska.uhlen@diakonie-katastrophenhilfe.org and in cc hatem.efe@diakonie-katastrophenhilfe.org and diakonia-kosciola@diakonia.org.pl by 15th of April 2024. All e-mails should be sent with the subject line "Project No. K-POL-2022-4041 Audit."

Bidders may seek further clarifications by writing to the same email address.

Kindly note that DKH will not reply to unsuccessful bidders and late submissions will be disqualified for selection.