

## **Annex A.1 Terms of Reference (ToR)**

### **CONTEXT**

The Danish Refugee Council (DRC) is seeking a qualified and experienced external auditor to conduct a financial audit of the project funded by KfW, covering the period from 01.10.2023 to 31.12.2024. The audit will assess compliance with financial and procurement regulations, verify expenditures, and ensure alignment with International Standard on Assurance Engagements (ISAE) 3000 (Revised) and KfW's specific audit requirements.

### **GENERAL PROVISIONS**

1. DRC may choose to cancel the agreement if deemed necessary.
2. DRC may choose to split the contract award to more than one supplier.
3. The completion of service(s) shall be within 20 calendar days after contract signature date. DRC may terminate the contract if supplier fails to deliver service(s) within this period. DRC may terminate the contract or impose other penalties if supplier fails to deliver services within this period.
4. No advance payment will be paid to the awarded supplier. The awarded supplier is expected to mobilize its own resources to deliver the agreed services.
5. The Contractor/s must comply with DRC General Conditions of Contract and Supplier Code of Conduct.
6. Services & total financial offer submitted should be all taxes, expenses etc included (administrative, logistics, official fees etc.)

### **OBJECTIVE**

The purpose of the audit is to provide independent assurance that the funds allocated to the project were used for their intended purposes, following applicable guidelines. The audit will:

1. Evaluate financial compliance with KfW funding agreements.
2. Verify procurement processes in line with donor and DRC regulations.
3. Assess the accuracy and completeness of financial reports.
4. Review internal controls to ensure proper financial management.
5. Identify potential risks and provide recommendations for improvements.

Financial Audit Services

**SCOPE OF WORK & GENERAL SERVICE REQUIREMENTS**

**1. Scope of Work**

The selected audit firm will conduct a comprehensive financial compliance review of KfW-funded projects implemented by DRC Türkiye in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised). The audit will evaluate, verify, and provide assurance on whether financial transactions comply with KfW financing agreements, international accounting standards, and DRC's internal policies.

The scope of work includes, but is not limited to, the following key areas:

**1. Financial Compliance & Documentation Review**

- Verify that project funds have been used exclusively for their intended purposes and in compliance with KfW agreements.
- Ensure that all expenditures, disbursements, and advances are properly recorded and backed by valid supporting documentation.
- Confirm that no double financing has occurred, ensuring that expenses are not covered by multiple funding sources.

**2. Procurement Compliance**

- Assess whether procurement activities (goods, services, and works) comply with DRC and KfW procurement policies.
- Review the tendering and selection process to confirm compliance with required guidelines.
- Identify any irregularities in procurement procedures and provide corrective recommendations.

**3. Financial Reporting & Accounting Standards**

- Review financial statements, disbursement requests, and reconciliation reports for accuracy and completeness.
- Ensure that financial reporting aligns with International Financial Reporting Standards (IFRS) and DRC's internal financial policies.
- Verify that all financial records are systematically maintained and accessible for audit and review purposes.

## Annex A.1 Terms of Reference (ToR)

### 4. Internal Control & Risk Assessment

- Evaluate the effectiveness of financial controls in preventing fraud, mismanagement, or financial inconsistencies.
- Identify gaps in financial oversight and recommend measures to strengthen internal controls.
- Assess whether DRC's financial management systems comply with audit and risk management best practices.

### 5. Audit Reports & Deliverables

- Provide a Formal Audit Report summarizing findings, compliance status, and key recommendations.
- Submit a Management Letter detailing deficiencies, risks, and proposed corrective actions.
- Ensure that final audit report & management letter are submitted no later than 20 calendar days after contract signature date.

## 2. General Service Requirements

The selected audit firm must adhere to the following service requirements:

### 1. Expertise & Professional Standards

- Must be an independent and recognized audit firm with experience in auditing international development/ aid projects.
- Must have certified auditors with expertise in financial compliance, donor-funded audits, and procurement assessments.
- Must comply with International Standards on Auditing (ISA), ISAE 3000 (Revised) (please see below), and IFRS.
- The auditor must comply with Annex A, B, and C (please see below), which define detailed technical requirements, compliance expectations, and reporting guidelines.

### 2. Independence & Objectivity

- The audit firm must operate independently without any conflict of interest with DRC or KfW.
- Auditors must maintain strict confidentiality regarding all financial data and organizational information.

## **Annex A.1 Terms of Reference (ToR)**

### **3. Audit Timeline & Reporting**

- The audit must be conducted within the agreed timeframe to avoid delays in reporting to KfW.
- A draft report must be submitted for review and discussion, no later than 15 calendar days after contract signature date..
- The final audit report and the management letter should be provided both in digital format (PDF) and hard copy, no later than 20 calendar days after contract signature date.

### **4. Access to Information, Collaboration & Site Visits**

- The audit firm will have full access to all financial records, procurement documents, and internal policies necessary for the review.
- The audit team must engage with DRC's finance teams to ensure clarity and accuracy in findings.
- Any discrepancies or concerns identified must be promptly communicated to DRC for resolution.
- If deemed necessary within the applicant's proposal, site visits to project locations may be conducted;
  - DRC's Country Office is located in Adana and will serve as the primary coordination point.
  - Project locations include Hatay, Kahramanmaraş, Kilis, and Şanlıurfa, where site visits may be required.
  - Any expenses related to possible site visits, including travel, accommodation, and per diem costs, must be included in the financial offer of the bid.
- DRC will facilitate access and logistical coordination for site visits but will not cover any additional costs beyond those included in the bidder's financial proposal.

## Annex A.1 Terms of Reference (ToR)

### TERMS OF REFERENCE (“ToR”)

#### Reasonable Assurance Engagement in accordance with ISAE 3000 (Revised) for Funds disbursed under the Disposition Fund Procedure

Name of project/programme: ... (the “**Project**”)

KfW reference no.: ...

LOGAS reservation no.: ... (if available)

Name of Authorized/Authorized Third Party, Project-Executing Agency and/or Project Implementation Unit: ... (the “**Entity**”)

#### Subject Matter

1. Under the financial conditions of the Project’s Loan/Grant Agreement (“Financing Agreement”) and the pertaining Separate Agreement, Project funds are disbursed under the “Disposition Fund Procedure” (the “**Disposition Fund**”) as defined in the Annexes “Total Cost and Financing” and “Disbursement Procedure” of the Separate Agreement.
2. The auditor/practitioner shall thoroughly verify which accounts have been opened by the Entity and / or any Project Partners in connection with the Disposition Fund. All such accounts (together the “**Project Accounts**”) shall be mentioned in Annex B and be considered in the scope of this reasonable assurance engagement.

The preparation of the project financial reports (“**Financial Reports**”), the Project Accounts, the Statements of Expenditures (= List of Expenditures / “**SOE**”) and the related disbursement requests (overall “**Subject Matter Information**”) is the responsibility of the Entity.

3. The financial information shall be established in accordance with consistently applied accounting standards and in conformity with the disbursement-related information in the underlying agreements, notably the Financing Agreement(s) including the corresponding Separate Agreement as well as other agreements dealing with the payment flows under this Disposition Fund (together the “**Relevant Agreements**”).

#### Scope

4. This engagement is a **reasonable assurance engagement** in accordance with the International Standard on Assurance Engagements **ISAE 3000 (Revised)** as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants. This standard requires that the auditor/practitioner will plan and perform procedures considered necessary to obtain reasonable assurance about the Subject Matter information (including on-site visits).

Please note: We do not accept a limited assurance engagement.

5. The assurance engagement
  - will be carried out annually (“**Reporting Period**”);
  - shall cover in one single Report (“**Report**”) all Project Accounts;
  - shall cover only expenditures/costs under this Disposition Fund.

## Annex A.1 Terms of Reference (ToR)

### Objective

6. The objective of the assurance engagement is to permit the auditor/practitioner to express a conclusion on the Subject Matter Information (see paragraph 2) and to obtain reasonable assurance on expenditure of project funds / incurred project costs, i.e. whether the Subject Matter Information is free from material misstatement regarding proper use of KfW funds according to the criteria (“Criteria”) listed in **Annex A**.
7. The auditor/practitioner shall consider that mere account transfers as well as advance payments to Project Partners and service providers which have not been cleared until the end of the Reporting Period cannot be classified as “incurred cost” or “use of funds” and shall be shown separately in **Annex B** (as “New project receivables”).
8. The auditor/practitioner shall express a conclusion with **reasonable assurance** to each criterion listed in **Annex A**.

### Reports

9. The **Report(s)** shall
  - (a) be issued by a renowned auditor/ practitioner in English;
  - (b) be presented annually (as signed final version only and approved by the Entity) not later than three months after the end of the Reporting Period;  
  
The last audit report shall be presented no later than three months after the end of the Reporting Period in which the final payment out of the Special Account or a Local Special Account was made or six months after the final payment out of the Special Account or a Local Special Account, whichever occurs earlier;
  - (c) include at a minimum the following elements:
    - description of the Subject Matter;
    - the auditor’s/practitioner’s conclusion on each criterion listed in Annex A;
    - description of significant limitations;
  - (d) state in a separate paragraph any tax amounts or other project related contributions paid and not refunded, if the Relevant Agreements prohibit financing of these costs;
  - (e) comprise the auditor’s/practitioner’s statement on the seriousness of observations noted including the consequences of specific deficiencies, if any;
  - (f) contain the following annexes:
    - Annex A and B (completely filled)
    - Definition of “Relevant Documents” for procurement (see Annex C)
    - These ToR.

## Annex A.1 Terms of Reference (ToR)

### Management Letter / Statement on Internal Control

10. The auditor/ practitioner shall prepare a “**Management Letter**” or “**Statement on Internal Control**” containing:
- (a) comments, observations, and recommendations on
    - the accounting records,
    - systems and controls examined (with special focus on the handling of project receivables such as advances, tax claims, etc).
    - procurement systems, procedures and controls (with special focus on conformity to KfW guidelines and other relevant documentation agreed upon, see Annex C of these ToR). In case of comments on procurement systems, these shall be presented in a separate chapter and shall include a list of all affected contracts with contract values.
  - (b) specific deficiencies and areas of weakness identified in relevant systems and controls. The auditor/practitioner shall rank them according to importance together with recommendations for their improvement.
  - (c) a report on actions taken by the management to make improvements with respect to deficiencies and areas of weakness reported in the past.
  - (d) any other matters that the auditor/ practitioner considers pertinent.
  - (e) the management's position on each of the observations made.
- The financial impact of findings must be quantified.

### Liability

11. The amount of the professional liability insurance shall be based on local/regional standards for audit companies. When prompted to do so, the auditor/practitioner will provide KfW with evidence of his liability insurance.

### Review

12. The auditor/practitioner shall keep documentation supporting his conclusion until at least five years after completion of the assurance engagement and shall have it accessible at all times for review by the Entity, KfW or any third party commissioned by them.

## Annex A.1 Terms of Reference (ToR)

### Annex A (to be attached to every Report as integral part) SUMMARY

**Name of Project:** ...

**KfW Ref. No.:** ...

**Subject Matter:** Disposition Fund (all Project Accounts stated in Annex B)

**Reporting Period:** ...

*[Only if applicable:]* The Funds were (partially) channelled through the Entity to the following Project Partner(s) for final use:

Project Partner	Country	Sub-Project

Within the scope of our reasonable assurance engagement under the Project, performed in accordance with the International Standard on Assurance Engagements **ISAE 3000 (Revised)**, we give **our conclusion** on the following criteria:

Applied Criteria	**Conclusion (YES/ Yes, except for .../ NO)	Summary of work performed (see para. 69 of ISAE 3000)
<p>a) All payments made from any of the Project Accounts and all costs incurred stated in Annex B were in accordance with the Project purpose as specified in the Relevant Agreements.</p>		
<p>b) The Disposition Fund has been maintained in accordance with the provisions of the Annex "Disbursement Procedure" to the Separate Agreement, among others:</p> <ul style="list-style-type: none"> <li>• Cash flows of KfW Funds to final beneficiaries and between Project Accounts (Annex B) can be traced without any gaps;</li> <li>• Interest income or other project related receipts have been credited to Project Accounts;</li> <li>• No contract value exceeds the maximum amount limit of EUR 500,000;</li> <li>• Balance(s) on Local Special Account(s) do not exceed the requirement of one month;</li> <li>• Exchange rates used are plausible and have been applied consistently;</li> <li>• Balance(s) in petty cash box(es) do not exceed the cash requirement for one day;</li> <li>• The costs are in line with the budget positions agreed with KfW;</li> <li>• Fixed Asset registers have been maintained properly.</li> </ul>		
<p>c) The following items are supported by relevant and reliable evidence (such as contracts, invoices, guarantees, procurement documentation etc.):</p> <ul style="list-style-type: none"> <li>• expenditures from the Project Accounts;</li> <li>• incurred costs paid;</li> <li>• cleared advances of former periods.</li> </ul> <p>There are no indications that any expenditure had already been financed by other sources.</p>		



**Annex A.1 Terms of Reference (ToR)**

d) The SOE sent to KfW during the Reporting Period can be relied upon to support the related disbursement requests. Clear linkage exists between the SOE and disbursement requests presented to KfW and the accounting records of the Entity.		
e) Goods and Services have been procured in accordance with the Relevant Agreements, especially the applicable <i>DRC Procurement Management Operations Handbook, Version 1.3</i> and any other relevant document (see Annex C), including adherence to all required No-Objections, thresholds and associated conditions.		
f) No other important findings and observations have been disclosed during the engagement.		In addition: Please indicate here whether a management letter has been issued or not.
g) Material observations raised in previous audits have been cleared – not applicable in case of first report hereunder.		

**\*\*Note:** Please insert

- “YES” in case of an unqualified conclusion;
- “YES, except for ...” in case of a qualification;
- “NO” in case of another modification of the conclusion.

All modifications of the conclusion require a reference to a detailed description in the Report or Management Letter.

<b>The following costs are questionable / ineligible</b>		
<i>Sample size</i>	<i>Currency / amount</i>	<i>Reference to Report or Management Letter</i>

Any questionable/ ineligible cost shall be detailed in the Report or Management Letter with an explanation stating facts and reasons.

**Date:**

**Stamp and Signature of the auditor/practitioner:**

## Annex A.1 Terms of Reference (ToR)

### Annex B (to be attached to every Report as integral part)

#### Project Account Summary

**Name of Project:** ...

**KfW Ref. No.:** ...

**Subject Matter:** Disposition Fund (all Project accounts mentioned here)

**Reporting Period:** ...

The following Project accounts have been considered for this reasonable assurance engagement:

	Currency	Account Number	Account Holder	Country	Financed by ... (KfW or other)
Special Account					
Local Account 1					
Local Account 2					
Etc.					
Other Project-related Account** - if any -					

\*\*e.g., for tender costs, retention etc.

The cash flows on these Project accounts are as follows:

		Special Account No.....	Local Account 1 No.....	Local Account 2 No.....	Local Account 3 No.....	Cash Box If any
		Account Currency:	Account Currency:	Account Currency:	Account Currency:	Currency:
A) Opening Balance						
B) Inflow of KfW funds	Plus		<del> </del>	<del> </del>	<del> </del>	<del> </del>
C) <i>If any:</i> credit interest or other project related receipts	Plus					
D) Incoming transfers - only from accounts indicated in this table	Plus					
E) Outgoing transfers – only from accounts indicated in this table	Less					
F) Total costs paid (liabilities must not be considered hereunder)	Less					
G) <i>If any:</i> New project receivables (such as advances) not cleared until the end of the reporting period	Less					
H) Closing Balance						

- In case of further project accounts: Please add further columns.
- If there are more than 8 local accounts of Project Partners, it is possible to state a cumulated figure in one column.

### Annex A.1 Terms of Reference (ToR)

<b>Supplement 1: Project receivables – if any</b>						
		<b>Entity (e.g., Project Executing Agency)</b>	<b>Project Partner ...</b>	<b>Project Partner ...</b>	<b>Project Partner ...</b>	<b>Project Partner ...</b>
		<b>Currency:</b>	<b>Currency:</b>	<b>Currency:</b>	<b>Currency:</b>	<b>Currency:</b>
1.) Opening balance of receivables such as advances, tax claims etc. paid from KfW funds but not cleared by the <u>end of previous Reporting Period</u>						
2.) Project receivables paid in <u>previous Reporting Periods and cleared during current Reporting Period</u>	Less					
3.) Project receivables paid in <u>current reporting period and not cleared by the end of this Reporting Period</u> (corresponds to line G above)	Plus					
4.) Total project receivables not cleared by the <u>end of this Reporting Period</u>						
<b>Please note: Receivables paid <u>and</u> cleared within this Reporting Period are to be considered as “actual costs paid” (line F above) and are not to be considered here.</b>						
<b>Supplement 2: Retention Account</b>						
<b>- If any - Balance Retention Account by the end of this reporting period:</b>						

**Annex C (to be attached to every Report as integral part)**

**Definition of “Relevant Documents” for Procurement**

The Separate Agreement is always applicable and defines the details of the procurement procedures and potential relevance of the other documents/ rules/ laws listed below:

Separate Agreement, dated 07 November 2023 (incl. KfW’s Procurement Guidelines)
Procurement-relevant amendments (or attachments) to the Separate Agreement, e.g., by Minutes of Meeting, dated n.a.
Procurement (Procedures) Manual (if applicable; has preference over the Separate Agreement) – here applicable: DRC Procurement Management Operations Handbook, Version 1.3
Procurement Plan, dated n.a. (current version)