



## NGO Development Center (NDC) Terms of Reference for Financial and External Audits for 2012 & 2013

### 1.0 General

**Background:** The NGO Development Center (NDC), which was established in March 2006, is the largest Palestinian organization of its kind working hand-in-hand with Palestinian NGOs, local cooperatives, and community development organizations to enhance their service delivery and build a more capable, responsive Palestinian civil society. NDC's programs and grants empower Palestinians to help Palestinians by providing NGOs the skills, tools and funds they require to address social needs and promote self-reliance amidst adversity. The organization also advocates greater NGO transparency and accountability through the adoption of professional financial and management practices, and promotes sector-wide coordination and sharing of best practice experiences.

#### **Main projects/programs under implementation by NDC are:**

1. NDC received grants from the International Development Association (IDA) and the Agence Française de Développement (AFD) in an amount of US\$2 million and € 5 million (US\$ 6 million equivalent) respectively; toward the cost of Palestinian NGO IV project.
  - a. World Bank-financed Palestinian NGO IV Project over the period August 2, 2010 through June 30, 2013,
  - b. Agence Française de Développement (AFD) financed Palestinian NGO IV Project over the period July 1, 2010 through June 30, 2013.
2. Human Rights and Good Governance Program financed by four donors namely Sweden, Switzerland, Denmark and Netherland for US\$ 16.20 Million, over the period January 1, 2010 to June 30, 2013 (phase II).

**Context:** NDC shall at all times maintain a financial management system, including records and accounts, and prepare financial statements for the project in a format acceptable to the Donors and adequate to reflect the operations, resources and expenditures related to the Project. Also NDC shall maintain records and supporting documents for all expenditures with respect to which withdrawals from the Grant Account were made (the records should reflect all categories of withdrawals SOEs, direct payments and replenishments of Dedicated / Special Accounts).

The Project Financial Statements ("PFS") are comprised of (i) Project statement of financial position at the fiscal year closing date (ii) Statement of funds receipts and expenditures incurred on the Project for the year then ending (iii) Reconciliation statement for the balance of the Project's Dedicated / Special Account as of year end

and (iv) the consolidated Interim unaudited Financial Reports (IFRs) for the year. For procurements of goods and services to the Project, NDC is required to comply with the World Bank Procurement Guidelines. The Trust Fund Grant Agreement requires that the records, accounts and financial statements mentioned above and the records and accounts for the Dedicated / Special Accounts for each fiscal year to be audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank. Audited PFS should be submitted by the Borrowers / Guarantees as soon they become available but not later than six months after the end of the fiscal year. In fulfillment of this statutory clause of the Trust Fund Grant Agreement requirements, NDC should engage a qualified independent audit firm according to terms of reference and scope of work acceptable to the Donors, as summarized below.

## **2.0 Objectives**

The primary objective of the audit engagement is to enable the auditor to express a professional opinion as to whether (i) the NDC's Financial Statements (PFS) show true and fair view of the NDC's financial position for each of the years ending as of December 31, 2012 and 2013 and funds receipts and expenditures incurred during the period then ending, (ii) expenditures reimbursed on basis of Statements of Expenditures are eligible to Bank financing and are reflected on the PFS, (iii) the Dedicated / Special Accounts have been used exclusively for payment of eligible expenditures as reflected in the PFS, (iv) the NGOs have been selected in compliance with the relevant agreements and the resources received were used for eligible expenditures under the micro projects, (v) express a view on whether management is achieving its objectives and performing its managerial tasks of planning, organizing directing and controlling, (vi) review and appraise the efficiency of operating methods and procedures, and (vii) recommendations aim to improve the efficiency and effectiveness of NDCs' operations. For this purpose, the auditor shall carry out whatever necessary examinations of the statements and underlying records and control systems as well as site visits. The Audit opinion should also state whether the Procurement Guidelines have been properly applied and in accordance with the relevant Trust Fund Agreements. The present TORs are for a two-year audit assignment covering the 2012 and 2013 fiscal years (January 1 – December 31).

## **3.0 Scope of Audit Assignment**

The audit subject of this Terms of Reference is considered as a special purpose contractual agreement audit for which, in addition to compliance with international standards as explained below, the auditor needs to take into consideration the Donors' reporting requirements and compliance with their Procurement Guidelines.

The estimated number of recipient NGOs around 32 financed from Donors-provided grants. The Auditor is expected to have performed an audit for all recipient NGOs by the end of the project term.

The audit will be carried out in accordance with Generally Accepted Auditing Standards (GAAS) such as the International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC) or the Audit Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI), having regard to relevant financing agreements and World Bank particular requirements, and should pay special attention to the following:

- a) All funds provided to the Center have been used, accounted for and classified in accordance with the relevant financing agreements;
- b) All transactions related to NDC are reflected in the FS issued according to International Financial Reporting Standards.
- c) Goods and services financed have been procured in accordance with the relevant financing agreement and the Project Operations Manual (POM);
- d) All necessary copy of supporting documents, records, and accounts have been kept in respect of all project. Clear linkages should exist between the books of account and reports presented to the Bank;
- e) Where Dedicated Account (IDA) or Special Account (AFD) have been used, they have been maintained in accordance with the provisions of the relevant financing agreement;
- f) Compliance with specific covenants of the Trust Fund Grant Agreement, (e.g., compliance with the funding requirements of NGOs, hiring of Technical Assistant, etc.);
- g) Eligibility of expenditures claimed under Statement of Expenditures submitted to the World Bank for replenishment. This is in addition to substantiation of these expenditures;
- h) Internal controls as specified in the Project Operations Manual (POM) and the Financial and Administrative Manual of procedures (FAMP) have been duly complied with during the implementation of the project;
- i) Supporting documents, records, and accounts have been kept in respect of the POM including expenditures reported via Statements of Expenditures or the Dedicated Account (IDA) and Special Account (AFD) and HR/GG Program. Clear linking should exist between the books of account and reports presented to the Bank and the AFD;
- j) The project accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and give a true and fair view of the financial position of the center at the end of each period and of resources and expenditures for the fiscal period ended on that date and;

The auditor will be expected to review all correspondences with the Donor in relation to the Project including copies of the Aide Memoires, Mission Reports, and assess progress on all financial issues. The auditor will pay special attention to any specific risk areas as mentioned in the project documents (such as the Project Appraisal Document, etc.)

#### **4.0 Project Financial Statements (PFS)**

The project financial statements shall include:

- A separate summary of funds received showing funds received from all sources;
- A summary of expenditures shown under the main project/program headings and by main categories of expenditures both for the current fiscal period and cumulative to date for each separate grant; and for all grants;
- A Statement of Financial Position;
- Statement of Cash Flows that shows the sources and used of funds and;
- Register of Statement of Expenditures (SOEs)
- Notes on the Financial Statements for significant accounting policies and other relevant information.

As an annex to the Project financial Statements, a reconciliation between the amount shown as "received by the project from the Donors" and that shown as being disbursed by the Donors should be reviewed by the auditors. The reconciliation should indicate the mechanism for the disbursement, i.e. Dedicated / Special Accounts, statements of expenditures, or direct reimbursements.

#### **5.0 Statements of Expenditures (SOEs)**

In addition to the audit of the PFS, the auditors are required to audit all the SOEs, **processed** during the year under audit as the basis for the submission of withdrawal applications. The auditors should perform such tests of the controls, as they consider necessary in the circumstances.

These expenditures should be carefully compared with the relevant financing agreements to determine eligibility, and with reference to the project reports for guidance when considered necessary. Where ineligible expenditures are identified as having been included in withdrawal applications are reimbursed against, these should be separately noted by the auditors. Annexed to the Project Financial Statements should be a schedule listing individual SOE withdrawal applications by specific reference number and amount. The total withdrawals under the SOE procedure should be part of the overall reconciliation of Bank disbursements described above.

#### **6.0 Dedicated / Special Account**

In conjunction with the audit of the Project Financial Statements, the auditors are also required to audit the activities of the Dedicated / Special Account associated with each project or program. The Dedicated / Special Account usually comprise of:

- Deposits and replenishments received from the World Bank, AFD and HR/GG Program.
- Payments substantiated by the withdrawal applications.
- Interest income that may be earned on the time deposit balances and which belong to the recipient, and
- The closing balances at the end of each fiscal period.

The auditors must:

- Form an opinion as to the degree of compliance with the Donors' procedures and the balance of the Dedicated / Special Account at fiscal period-end.
- Examine the eligibility and correctness of financial transactions during the period under review and fund balances at the end of such a period, the operation and use of the Dedicated / Special Account in accordance with the financing agreements.
- Report on the adequacy of internal controls over the disbursements mechanism.
- Review the procedures for the call for tenders and finalization of the contracts for selecting Recipient NGOs
- Review the implementation of the micro projects by the Recipient NGOs

For this project, the Dedicated / Special Accounts statements and the auditors' report should accompany the Project Financial Statements.

## **7.0 Audit Deliverables**

**7.1 FINANCIAL AUDIT** with regard to financial reporting and Statement of Expenses (SOEs), and the procedures and internal controls used by NDC to support withdrawals from the Special Accounts. The Financial Audit is to be **completed not later than three months after the end of each financial year for the preceding year**. The Financial Audit will be comprised of:

- (i) **Audit Report** which shall include a single explicit professional opinion whether (a) the project financial statements give a true and fair view of the state of the Project's affairs, (b) expenditures reimbursed on basis of Statements of Expenditures are eligible to Bank financing and are reflected on the PFS, (c) The Dedicated / Special Account has been used exclusively for payment of eligible expenditures as reflected in the PFS, and (d) Recipient NGOs have been selected in compliance with relevant agreements. The Auditors should take into account relevant statutory and other mandatory disclosures and accounting requirements stipulated in the Loan Agreement and express in the report any relevant exception and the impact of the exception on the PFS.
- As the NGO Development Center intends to appoint one auditor to audit all its accounts and operations, the generated audited financial statements for each of the years ending December 31, 2012, 2013 and thereafter will consist primarily of a Statement of Financial Position, Statement of Activities and a Statement of Cash flows for all of the NDC accounts.

The auditing of all of NDC accounts entails that:

- NDC's Statement of Financial Position will explicitly identify the balance of funds held in financial institutions specifically restricted for projects implementation as financed by respective donors.
- NDC's Statement of Activities will provide necessary disclosure requirements identifying revenues received and expenses incurred categorized per source of funding.

- NDC's financial statements and related notes thereto will provide supplementary information as required by donors like a reconciliation of special accounts to reflect adjustments resulting from grants' charged expenses which are not settled as of year ends;
- For the HR/GG program, an annual audit of the Grant Funds Account to be submitted no later than 2 months after the close of the fiscal year.
- Annual overview of NGOs audit reports - **HR/GG Audit phase II - Compliance**

(ii) **Management Letter** which should report any significant accounting and control issues arising from the audit, as identified during the internal control mechanisms review together with the related risk. The letter, with management responses, and recommendation to address the situation and insufficiencies, should be made available to the Project's governing body in time. As annex of the Management Letter the auditor will mention whether or not recommendations issued on the previous Management Letter have been considered by the PIU and/or governing body.

Below a summary of audit Deliverables:

<u>Required Report</u>	<u>Expected DATE</u>
Consolidated audit report for 2012 and management letter	30-Mar-13
Consolidated audit report for 2013 and management letter	30-Mar-14
<b>Interim Spot Audits (IDA and AFD)</b>	
Submit the audit report for subproject 30/06/2012	30-Sep-12
Submit the audit report for subproject 31/12/2012	31-Mar-13
Submit the audit report for subproject 30/06/2013	30-Sep-13
<b>IDA Audit PNGO IV</b>	
Submit the final audit report for the special account 2012	28-Feb-13
Submit the final audit report for the special account 2013	28-Feb-14
<b>HR/GG Audit Phase II</b>	
Submit the final audit report for the special account 2012	28-Feb-13
Submit the final overview audit report for the NGOs 2012	31-Jul-13

## **7.2 MICROPROJECTS AUDITS**

### **Interim Audits I (for World Bank and AFD funded projects):**

The auditor will be expected to carry out interim spot audits every six months of randomly selected micro projects — (not less than one-third of total NGOs awarded grants per year). The interim audit will be part and parcel of the end of year financial audit for 2012 and 2013.

The objective of the interim audit is to ascertain the grantees' (beneficiaries') compliance with the terms of NDC's funding agreement as well as the achievement of physical and other progress under the micro project. More specifically, it aims to ensure that contracts were awarded in accordance with procedures agreed to with the Donors, that resources received were used for eligible expenditures as spelled out in the Project Papers and the Trust Fund Grant Agreements and the implementation of the micro project are in compliance with the agreed upon requirements.

An audit clearance for releasing the final payment to ALL micro-projects (whether financed by the World Bank or the French Development Agency) is necessary to be provided by the auditor after completing the audit of the recipient NGO.

### **Interim Audits II – HR GG:**

An annual audit of the Grant Funds Account to be carried by the auditor and submitted no later than two months after the end of each financial year for the preceding year.

An overview of all individual NGO audit reports (2012) produced under the Program and a summary statement certifying that all NGO audit reports have been found in order and in accordance with International Financial Reporting Standards as published and amended by the International Accounting Standards Board [Cf. GIA]. To be submitted to NDC no later than 31 July 2013.

## **8.0 General Principles for Audit**

The auditor should be registered as certified public accountant with the appropriate professional body in West Bank and Gaza and have substantial experience in auditing major projects in the country. In case of government auditing, the audit team should be adequately staffed with qualified auditors having relevant background and experience in auditing. The same audit principles should be applied if the audit is conducted by private or government auditors.

## **9.0 Irregularities Including Fraud**

The Project is responsible for ensuring the establishment and maintenance of an adequate system of internal control. It is also responsible for ensuring compliance with statutory and other regulations, and for the prevention and detection of irregularities, including fraud. Although, the Auditors are not required to search specifically for such matters, the audit shall be planned and conducted so that the Auditors have a

reasonable expectation of detecting material misstatements in the accounts resulting from irregularities, including fraud, or breach of regulations.

The Auditors will report in writing any serious weaknesses, fraud, irregularities or accounting break-downs that they come across in the normal course of their duties to the designated office holder, Project, and the World Bank and ADF without delay.

### **10.0 Staff requirements (Indicative)**

Past experiences of the Bank with similar assignments have shown that the key personnel in the audit team, their minimum qualifications and their anticipated inputs are indicated below:

1. The audit team should be lead by a *Team Leader/Audit Partner* with a minimum of 10 years of post-qualification experience as a practicing Chartered Accountant. Experience in IDA financed project auditing will be an added qualification. He/She should have proven knowledge and experience in computer based financial management system.
2. Day- to- day management of the audit should be the responsibility of an *Audit Manager* with at least 7 years of post-qualification experience as a Chartered Accountant. He/She should have proven knowledge and experience in computer based financial management system.
3. The audit team should also include sufficient number of appropriate staff: audit seniors with (4-6) years experience and MA in Business Administration/ Accounting – CPA, CMA preferable; junior staff with (1-2) years experience and BA in Business Administration/ Accounting.

### **11.0 Access**

The Auditors shall have rights of access to the books, accounts, vouchers, Credit Agreement, Project Agreement and related Supplemental Letters, Project Appraisal Document, correspondence, and all other documents in relation of the Project and to such information and explanations as auditors consider necessary to perform their duties and fulfill their responsibilities.

In addition, the auditors will be provided with copies of the World Bank relevant publications that the governing body has to recognize including: , (i) the World Bank “*Project Financial Management Manual*”, (ii) the World Bank Audit policies and Practices fro World Bank Finance Activities, (iii) The World Bank “*Procurement Guidelines*”

In turn, on occasions the World Bank representatives may wish to meet with Projects' auditors, in connection with a visit to the auditor's office, review of the audit working papers files and discussion of the work performed and conclusion reached by the auditors. The Auditor should not limit access in any way and must reply to all inquiries raised by the World Bank representative. Failure to comply with this provision may disqualify the auditors from dealing with the all projects funded or administered by the World Bank. Formal discussion should normally be arranged through the Project's designated office holder or representative. The World Bank will have this exclusive right during performance of the audit and within two years after completion of the audit engagement.

## 12.0 Miscellaneous

- **Annual Meetings:** The Auditor will be requested to attend the meeting of the Governing Body to which the Project's annual reports and financial statements of account are presented. The Auditor will receive all notices and other communications relating to that meeting which any member of the Governing Body is entitled to receive. The Auditor will discuss the audit report and management report and any part of the business which concerns the auditor.
- **Termination of Appointment:** If there are serious shortcomings on the part of the Auditor, the Governing Body, after consultation with the World Bank, may pass a resolution to remove the Auditors before the expiry of their assignment.
- **Restriction of Auditor's Liability:** There is no limitation of the auditors' liability in respect of audit opinions given under this assignment. The Project's Governing Body will not agree to any such restrictions in Liability.