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Terms of Reference (TOR) for Conducting External Audit Services

1. Introduction

The Horn Economic and Social Policy Institute (HESPI), a long-term partner of The Swedish International Development Authority (SIDA), is an independent, non-profit organization that promotes high quality policy research and institutional capacity building in the Intergovernmental Authority on Development (IGAD) region and its member countries. As the cooperation partner, HESPI wishes to engage the services of an audit firm for the purpose of auditing the SIDA supported project to HESPI entitled ‘Enhancing the Role of Civil Society Organizations (CSOs) in Public Finance Management (PFM) and Financial Transparency and Accountability (FTA) in Selected IGAD Member Countries’ as stipulated in the agreement between the two parties.

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

2. Objectives and scope of the audit

The objective is to audit the financial report (in USD) for the period 2023-01-01 to 2024-06-30 as submitted to SIDA and the financial report (in ETB) for the period 2023-01-01 to 2023-12-31 for the HESPI Overall account and to express an audit opinion according to ISA, applying ISA 800/ISA 805, on whether the financial report of the project ‘Enhancing the Role of Civil Society in PFM and FTA in Selected IGAD Member Countries’ is in accordance with the HESPI’s accounting records and SIDA’s standard requirements for financial reporting as stipulated in the agreement (SIDA contribution No 16329) including appendices between Sida and HESPI .

Scope wise, the audit exercise will assess the soundness of financial management and internal control systems through enabling the Auditor to access all the financial records and express a professional opinion on the project’s Financial Statement for the indicated period. More specifically, the scope of the assignment will include:

¹ The International Auditing and Assurance Standards Board (IAASB)

- a) carrying out tests of transactions as necessary, and will obtain an understanding of the HESPI's/the project's accounting system, to assess the adequacy as a basis for the preparation of the financial statements to establish whether adequate records have been maintained;
- b) confirm that appropriate internal control framework is in place to provide reasonable assurance on the operations of HESPI's efficient use of resources and reliability of the financial reports; and
- c) confirm that although responsibility for preventing errors, irregularity or fraud, or the use of resources for purposes other than as defined in Grant Agreements, remains with the grantee, the Audit will be planned so as to have a reasonable expectation of detecting material misstatements in the HESPI's financial statements.

3. Auditing standard and Areas to be reviewed:

The Audit should be carried out in accordance with International Standards on Auditing (ISAs) in all material respects and should include such tests and Audit procedures as the Auditor considers necessary under the circumstances. The following areas in accordance with the Terms of Reference (TOR) below and the agreed upon procedures of the ISRS 4400 will be considered. The mandatory procedures that must be included are:

1. Observe whether the financial report is structured in a way that allows for direct comparison with the project's approved budget.
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 (if any) under current agreement (including the amended or extended project period).
 - b) When applicable, compare if the opening fund balance² 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/program within the organization in local currency/ies
 - d) Explanatory notes (such as, for instance, accounting principles applied for the financial report).
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:*
 - b) Inquire and inspect whether there are supporting documentation³ for debited salary costs.
 - c) Inquire and inspect whether actual time worked (in a time sheet or attendance sheet) is documented and verified by a manager. Inquire and inspect within which frequency reconciliations between debited time and actual worked time is performed.
 - d) Inspect whether HESPI complies with applicable tax legislation with regard to personal income taxes (PAYE)⁴ and social security fees.

² I.e. funds remaining from disbursements made during previous reporting period/s

³ Debited salary costs should be verified by supporting documentation such as employment contracts.

⁴ Pay As You Earn

4. Review and confirm that the HESPI screens IP's and/or suppliers to ensure that such parties are not subject to the EU's financial sanctions list of persons, groups and organisations (EU Sanctions list). Enquire whether there have been any reported findings from the screening process and if so, report on such findings.
5. 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) Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that shall be repaid to SIDA (Applicable the final year).
6. Examine whether the financial report includes comparison, for every budget item, between the actual costs/expenditures of activities and the budgeted costs/expenditures as approved by funding partners.
7. Based on materiality and risk the Auditor shall examine whether there is supporting documentation related to incurred costs.
8. Examine whether foreign exchange gain/ losses are disclosed as a separate item in the financial report as well as disclosed in accordance with what is stipulated in the agreement including appendices and generally accepted accounting principles.
9. The HESPI's compliance with the applicable tax legislation with regard to taxes & social security fees.
10. Follow up whether HESPI has adhered to the procurement guidelines of the referred to in the agreement.

Additional Assignments, to check if;

- (i) The existing practices and procedures are sound, in line with the policies and procedures approved by the governing body.
- (ii) The amounts claimed from Donors by HESPI and the disbursements made by those donors are reconciling. The disbursements made by donors are properly recorded in the financial statements of HESPI and are shown as a note or attachment to the financial statement.
- (iii) The financial statements of the HESPI's account have been prepared in accordance Generally Accepted Accounting Principles and Practices as appropriate, and give a true and fair view of the financial position of the for the period being Audited.
- (iv) The Auditor will assess the soundness and adequacy of the institute's procedures, and whether those procedures are consistently applied by the institute in the normal course of operations. Also, the general effectiveness of the internal control system in protecting the assets and resources of the program.

Reporting from the ISRS 4400 (Revised) assignment: The additional assignment according to agreed upon procedures ISRS 4400 (Revised) under section II, 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 (Revised). When applicable, the sample size shall be stated in the report.

4. The reporting

The reporting shall be signed by the responsible auditor (not just the audit firm⁵) and shall include the title of the responsible auditor, the project's name. Besides, it will outline the Responsibilities of Management and Auditor; the Auditor's professional opinion on the financial statements and supporting schedules; accounting and auditing standards that have been applied indicating the effect of any deviations from those standards and the period covered by the opinion and management letter. The Management Letter shall disclose all audit findings (significant and other findings), as well as weaknesses identified during the Audit process.

The financial report that has been subject of the Audit shall be attached to the Audit reporting. For this project, reporting from the ISA assignment, the report shall include an independent auditor's report in accordance with the format in standard ISA 800/805 and the auditor's opinion. That is, the Auditor shall make recommendations to address the identified findings and weakness. If the Auditor assesses that no finding or weaknesses have been identified during the Audit that would result in Management letter, an explanation of findings and weaknesses must be disclosed in the Audit reporting. 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 HESPI to address weakness identified in previous Audits (if any) shall also be presented in the Management letter. 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.

5. Auditor's independence and qualification

(i) Independence of the Auditor

The Auditor must be completely impartial and independent from all aspects of management or financial interests of the organization. The Auditor shall not, during the period covered by the financial report nor during the undertaking of the Audit, be employed by, serve as advisers or mentors for, or have any financial or business relationships with the organization

(ii) Auditor's minimum qualifications

The Auditor should be properly trained, qualified and is experienced in applying ISA Audit Standards. As appropriate, the Auditor must employ adequate staff with appropriate professional qualifications and suitable experience with ISA standards, including experience in Auditing the accounts of entities comparable in size and complexity to HESPI accounts and experience with research institutes, professional associations, think-tank's and regional and international NGO's. The Auditor must have certificate of practice and licensed by the appropriate Ethiopian government authority with a minimum of ACCA or CPA qualification. In addition, the firm must be under the approved registered Authorized Auditors list of Accounting and Audit Board of Ethiopia (AABE).

⁵ If the audit firm is obliged to sign, refer to relevant legislation. SIDA still needs to know who has been responsible for the audit assignment.

6. GENERAL

The Auditor will be given access to all legal documents, correspondence and any other information associated with HESPI accounts that may reasonably be deemed necessary to enable him/her to undertake the Audit. Due date for submission of the draft Audit report will be July 15, 2024 and the final signed Audit report shall be submitted not later than July 20, 2024.

7. KEY DELIVERABLES:

The Auditor should deliver **Draft Audit Report, Final Audit Report** with comments included and a **Management Report** for both accounts, SIDA supported project of enhancing the Role of CSO's in PFM and FTA in Selected IGAD Member Countries and HESPI's Overall account.

8. INDICATIVE SCHEDULE OF ACTIVITIES

Task	Source of information and support	Estimated Time frame
Sign contract with the client	HESPI to facilitate the contract signing process	May 8, 2024
Provide financial statements and supporting document to be Audited	HESPI Finance Department to provide the Auditor with all required documents for the Audit	2 Working Days
Conduct the Auditing	HESPI to provide Space and other facilities.	7 Working Days
Produce and submit first Draft Audit report	After receiving responses from HESPI for any Audit queries, the Auditor will submit the draft Audit report	2 Working Days
Seek and incorporate the comments from HESPI's	the draft Audit report	4 Working Days
Produce and submit final Audit Report and management letter	Final Report	1 Working Days