**Terms of Reference**

**Interim External Audit Service**

**Upscaling Partnership for Organic Agriculture**

**ADRA Mongolia**

1. **Background and Rationale**

The UPOAg project aims for the primary and cooperative union of Selenge and Darkhan-Uul provinces from October 2023 to Dec 2026 to establish a cluster-based organic supply chain management system from production to marketing to sell their organic and other agricultural and value-added regional products effectively to sustainably improve their livelihoods. As well as it aims to strengthen coordination structures at regional and national levels to develop impactful partnerships for creating an enabling environment for the development of the organic sector in Mongolia.

1. **Scope of External Audit**

The subject of this engagement is the Financial Statement in connection with the Grant Agreement. As per the BMZ Grant Agreement and Project Implementation Contract with the Prime-Recipient of the Grant, ADRA Mongollia has to carry out the Audit in two terms:

* The first audit of the project concerns the period covering 01.10.2023 to 31.12.2024
* The final audit of the project concerns the period of Life of Project (LOP) covering 01.10.2023 to 31.12.2026

ADRA Mongolia intends to engage one independent external auditor for all two terms of Project Audit. In the case the performance of the auditor is not found as required by the TOR, ADRA Mongolia and ADRA Germany reserve the right to change the Auditor for the next forthcoming audit.

The scope of audit services shall cover the overall management of the project’s implementation, monitoring and supervision. The audit work should include the review of work plans, progress reports, project resources, project budgets, project expenditure, project delivery, recruitment, operational and financial closing of projects (if applicable) and disposal or transfer of assets. To this effect, the scope of the audit shall cover the following areas as they are performed at the level of the project:

*Accounting*

The audit work shall cover the adequacy of the accounting and financial operations and reporting systems. These include budget control, cash management, certification and approving authority, receipt of funds, and disbursement of funds, recording of all financial transactions in expenditure reports, records maintenance and control.

The external audit should include the following auditing and control measures.

Verifying accounting records for correctness and completeness.

* Verifying the financial report in which all project-related revenues and expenditure must be shown and for which it must be confirmed that receipts are provided for all revenues and expenditure.
* Verifying how the provided project funds have been managed. This includes:
  + Project funds transferred to the project partner in the current budget year or during the project term
  + Interest earned in the current budget year or during the project term from project funds transferred to the project partner
  + Other revenues from the project activity.
* Verifying that proof of payments and receipts have been furnished in the form of vouchers. The receipts for expenditure must provide information as to the recipient, the reason for payment, proof of payment and the date. All the vouchers must also include a clear indication of the project as well as the budget line to which they relate (Upscaling Partnership for Organic Agriculture – BMZ Project Number 7363)
* Verifying to what extent the funds have been used appropriately for the purpose of carrying out the planned project objectives and activities.
* Verifying the cost-effectiveness of expenditure with regard to financial resources (to be used economically and as effectively as possible).
* Verifying that the cost plan is being adhered to by means of a comparison of objectives and effects (based on the most recent valid budget).
* Verifying and confirming that project-relevant documentation is complete and correct, including verification of stamping of original voucher.
* Verifying to what extent the funds have been used appropriately for the purpose of carrying out the planned project objectives and activities.
* Verifying the cost-effectiveness of expenditure with regard to financial resources (to be used economically and as effectively as possible).
* Verifying that the cost plan is being adhered to by means of a comparison of objectives and effects (based on the most recent valid budget).
* Verifying and confirming that project-relevant documentation is complete and correct, including verification of stamping of original voucher.
* Verifying that all agreements fundamental to the project are being adhered to (contracts, German private executing agency guidelines, BMZ funding requirements, BNBest-P/private executing agencies and BMZ contract award guidelines).
* The Auditor must seek evidence on a sample basis and in accordance with the principles of legality and regularity.
* Where expenditure is not supported by sufficient documentary evidence, or where it is not properly incurred, the Auditor has no discretion; he must report the matter and the amounts as a proposed disallowance. The subsequent decision as to whether to issue a recovery order is one made by ADRA Germany and the BMZ after considering all known facts/mitigating circumstances leading to the provisional disallowance as reported by the auditor. The Auditor plays no part in the decision on whether to issue a recovery order.

*Human resources*

The audit work shall cover the competitiveness, transparency and effectiveness of the recruitment and hiring of personnel and include performance appraisal, attendance control, calculation of salaries and entitlements, payroll preparation and payment, and management of personnel records.

Verifying the personnel costs and social security contributions to ensure that they are in line with local standards, legal in the respective project country and, above all, that they comply with contracts and that the contributions required by law are being withheld.

*Procurement*

The audit work shall cover the competitiveness, transparency and effectiveness of the procurement activities of the project in order to ensure that the equipment and services purchased meet the requirement of BMZ procurement guidelines and include the following:

* Confirm that Goods and services financed have been procured in accordance with sound procurement procedures set out in the BMZ procurement guidelines and ADRA Germany Procurement Policy
* As applicable, delegations of authorities, procurement thresholds, call for bids and proposals, evaluation of bids and proposals and approval/signature of contracts;
* Receiving and inspection procedures to determine the conformity of equipment with the agreed specifications and, when applicable, the use of independent experts to inspect the delivery of highly technical and expensive equipment
* Evaluation of the procedures established to mitigate the risk of purchasing equipment that do not meet specifications or is later proven to be defective;
* Management and control over the variation orders.

*Asset Management*

The audit work shall cover equipment (typically vehicles and office equipment) purchased for use of the project. The procedures for receipt, storage, disposal and inventory shall also be reviewed.

* Verifying the economic use of project equipment.
* Verifying the procured inventory, where it is being held and whether it has been/is being used appropriately for the purpose of carrying out the planned project objectives and activities.

*Cash Management*

The audit work shall cover all cash funds held by the project and review procedures for safeguarding of cash.

*General Administration*

The audit work shall cover travel activities, vehicle management (including car rental, taxi and public transportation), shipping services, office premises and lease management, office communications, and records maintenance.

*Information System*

The audit work shall cover the information and communication systems and the control and security of equipment and data.

The Audit will be expected to perform from January and February 2025.

* The audit shall be carried out in accordance with the standards specified in this terms of reference. It shall include such tests and verification procedures as the Auditors consider necessary given the circumstances, including: in accordance with the International Standard on Related Services (‘ISRS’) 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
* in compliance with the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, ADRA Mongolia requires that the Auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants.

1. **Objectives of the Audit and requirement of Audit Certificate**

The Auditors’ primary task is to verify the expenditure of BMZ project funds to ensure that expenditure is supported by appropriate documentary evidence, that is in compliance with the BMZ Grant Agreement and the ADRA Germany Project Implementation Contract. The objective of this Audit is to review the **Upscaling Partnership for Organic Agriculture** within the period starting **from October 2023 to 31 December 2024**. The External auditors must be independent and work to internationally recognized standard and follow BMZ’s *Guidelines for the funding of projects of importance to development under the responsibility of private German executing agencies.*

1. **Engagement Context**

**Planning, procedures, documentation, and evidence:**

The Auditor should perform the audit in accordance with the procedures, which cover documentation and evidence, planning, fieldwork, and reporting. The Auditor should exercise due professional care and judgment and determine the nature, timing, and extent of audit procedures to fit the objectives, scope and context of the audit.

**Preparation of the Audit, Planning Activities**

The Auditor must prepare the audit so that it is performed in an effective and efficient manner and agree on timing for carrying out the audit, notably with regard to fieldwork. The Auditor will then also confirm with ADRA Mongolia and ensure that relevant supporting documents as well as key staff will be available during the audit. Adequate planning involves that appropriate attention is devoted to important areas of the audit, that potential problems are identified and resolved on a timely basis and that the audit is properly organised and managed in order to be performed in an effective and efficient manner.

The Auditor should have and share with ADRA Mongolia and ADRA Germany an audit plan documenting the audit approach and key principles of planning, fieldwork, and reporting.

**Preparatory Meeting**

ADRA Mongolia and ADRA Germany foresees a preparatory meeting with Auditor. The purpose of this meeting is to discuss the planning, fieldwork and reporting of the audit and to clarify outstanding issues. During the preparatory meeting, the Auditor may request additional information and documents that he/she/it considers necessary or useful for the planning and fieldwork of the audit.

**Fieldwork**

The fieldwork is the ADRA Mongolia and project office in Ulaanbaatar and the field office in Selenge and Darkhan-Uul provinces. The audit fieldwork shall commence as soon as possible and not later than (3) calendar days after the signature of the Service Contract. The main task during the fieldwork will be to perform substantive tests. Key information about the testing process must be provided in the Audit report.

**Draft Report and Closing Meeting**

At the end of the fieldwork, the auditor shall create the draft report and organize a closing meeting with ADRA Mongolia and ADRA Germany in order to discuss the findings, obtain its initial comments and agree on additional information to be provided.

**Audit Documentation and Evidence**

The Auditor shall prepare audit documentation and obtain sufficient appropriate audit evidence to support audit findings and to draw reasonable conclusions on which to base the audit opinion. The Auditor shall use professional judgment to determine whether audit evidence is sufficient and appropriate taking into account the Contractual Conditions.

**Audit Report and Management Letter**

The auditor is expected to present an audit report and a Management Letter. The Auditor should submit to the Entity one portable document format (PDF) copy and three (3) original copies of the Audit Report in English for the BMZ funded project. The Entity will forward the report to ADRA Germany for processing.

**Conduct of the Audit**

In conducting the Audit, the Auditor shall:

* Carry out tests of transactions as are necessary, in order to obtain an understanding of the accounting system, to assess its adequacy as a basis for the preparation of the financial statements and to establish whether adequate records have been maintained as required by ADRA Germany regulations and/or financial rules of the BMZ.
* Conduct an in-depth review of the internal control systems to have sufficient knowledge of the procedures underpinning the systems
* Confirm that funds have been used in accordance with the applicable rules of the BMZ and that they have only been used for the purposes for which they were intended for and in accordance with the conditions under which the funding was provided
* Confirm that Goods and services financed have been procured in accordance with sound procurement procedures set out in the BMZ procurement guidelines and ADRA Germany Procurement Policy

Verify

* that the expenditure verification is in line with the BMZ Grant Agreement and Project Implementation Contract (including all Annexes thereto).
* that it is evident from the bookkeeping records and from the audit of accounts that the expenditures are covered by the revenues, and it must thus be verified that there is no duplicate financing by external funding bodies.
* that transactions are supported by reliable invoices and receipts and supporting documents.
* the eligibility of expenses given the starting date of the monetary expenditure.
* that transactions have been reviewed and authorized by appointed personnel.
* that all expenses are recorded in the Entity’s accounts and are backed by originals of supporting evidence
* to audit the proper bookkeeping,
* to audit the accounts on the basis of original vouchers,
* to audit the original vouchers,
* to audit the plausibility of expenditures,
* to assign expenditures to the items in the cost schedule
* to audit the overall conduct of business.
* that financial transfers (bank, cash) are understandable and in line with the reported expenditures.
* that where special accounts have been used, they have been maintained in accordance with the provisions of the relevant BMZ and ADRA Germany Agreement/Project Implementation Contract.
* that each set of accounts contains a clear description of cash flows that is documented in the form of currency exchange confirmations and bank statements.
* that if any interests have been generated in the Entity account.
* that the awarding of sub-contracts for delivery and supplies, work and services is in compliance with the relevant procurement procedures stablished by the donor.
* that purchased goods are listed correct in the inventory list.

The Auditor will report to ADRA Germany any attempt by ADRA Mongolia to restrict the scope of the Audit, or any lack of cooperation on the part of the Entity. The Auditor will consult ADRA Germany on what action may be required, whether or how the Audit can be continued and whether changes in the Audit scope or the timetable are acceptable.

**Financial Statements**

The Financial Statements to be audited, among others, include

* + - a Statement of Income and Expenditure,
    - a Statement of Financial Position,
    - a Statement of Changes in Accumulated Funds,
    - a Statement of Cash Flow,
    - the Accounting Policies Adopted and Explanatory Notes,
    - the Financial Reports compliant with the terms and conditions of the BMZ Grant Agreement

1. **Process and Timeline**

ADRA is calling for quotations from recognized and independent Auditors to submit an offer and conduct an Audit for **Upscaling Partnership for Organic Agriculture project in February 2025**. Please see below the draft scheduled timeline for the external audit:

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| --- | --- |
| ADRA Mongolia reaches out to Goverment of Mongolia’s approved Auditors for quotations for auditing services | 14 - 30 January 2025 |
| ADRA Mongolia shortlists and selects preferred Auditors | 31 January 2025 |
| ADRA Mongolia consults with ADRA Germany, bengo/BMZ and Ulaanbaatar based German Embassy and gains approval to proceed with preferred Auditors | 03 February 2025 |

|  |  |
| --- | --- |
| ADRA Mongolia and preferred Auditors signs a Service Contract | 05 February 2025 |
| Final approved financial report shared with Contracted Auditors | 10 February 2025 |
| Audit conducted | 10 -28 February 2025 |
| Contracted Auditors provide a draft audit report and conducts a debriefing meeting with ADRA Mongolia - according to BMZ requirements | 07 March 2025 |
| ADRA Mongolia seeks feedback from ADRA Germany and bengo/BMZ and provides feedback to Contracted Auditors | 14 March 2025 |
| Contracted Auditors provide final audit report to ADRA Mongolia – ADRA Germany. | 21 March 2025 |

1. **Outputs and Deliverables**

**Audit Report and Management Letter**

The Auditor shall report on his factual findings and recommendations in accordance with the requirements of these Terms. The report shall be objective, clear, concise, timely and constructive. The use of Annex A “Guide for an external, independent audit within the scope of the BMZ funding title for private executing agencies” is recommended. The auditor is expected to present an audit report and a Management Letter. The Auditor should submit to the ADRA Mongolia with one portable document format (PDF) copy and three (3) original copies of the Audit Report in English for the BMZ funded project. The ADRA Mongolia will forward the report to ADRA Germany for processing.

The Auditor shall prepare **Audit Report**, including:

1. Audit certificate following above mentioned requirements on Section 3 -Requirement on audit certificate
2. Quantitative documentary proof consisting of statement of application of funds (budget, actual expenditure, deviation); statement of accounts; financial statements (total income, total expenditure, fund balance) following provided template
3. Findings regarding the adherence with binding agreements set out in project agreements and donor funding guidelines (German private executing agency guidelines, BMZ funding requirements, BNBest-P/private executing agencies and BMZ contract award guidelines).

The Auditor shall prepare a **Management letter**, in which the Auditor shall:

1. Give comments and observations on the financial/accounting records, systems and controls that were examined during the course of the Audit.
2. Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement.
3. Communicate matters that have come to his/her attention during the Audit which might have a significant impact on the implementation of the project.
4. Give comments on the extent to which outstanding issues/qualifications issues have been addressed.
5. Give comments on previous audits’ recommendations that have not been satisfactorily implemented.
6. Bring to the recipient’s attention any other matters that the Auditor considers pertinent, including ineligible expenditures.
7. Ideally, the management letter should also include responses from the project to the issues highlighted by the Auditor.

The contracted Auditors will provide all correspondence in English that will undertake the following tasks and outputs:

* Coordinate with ADRA’s Finance Officer and designated Accountants for documentation.
* Review financial documents including cash advances, reconciliations, bank statements, monthly financial reports, proof of payments, etc.
* Conduct a debriefing meeting at the end of the Audit to discuss initial findings with the ADRA Mongolia Country Director, Finance Officer, Project team and ADRA Germany staff if possible

1. **Expert Profile of the Auditing Firm/Chartered Accountants**

The Auditing firm/chartered accountants must be approved by the Government of Mongolia and listed on the Accredited List of approved Auditing firms in Mongolia. The auditors should not only have high competency in the field of financial audits but also be able to communicate effectively in English (both spoken and written).

When applying Auditing firms/chartered accounts should include:

* CV of key personnel and Company information.
* Valid auditing license.
* Valid qualification of the chartered accountant/ auditors
* 3 related experiences references which are provided by the previous clients.
* Technical proposal including work plan, timeline and methodology.
* Financial proposal for fees in MNT.

Once the preferred Auditors are selected and approved by the German Embassy in Mongolia, ADRA Mongolia and ADRA Germany, the Auditing Firm will be contracted for the period 05 February to 31 March 2025 with the expectation the final audit report and certificate will be approved by ADRA Germany and ADRA Mongolia by the said date. If delays are experienced by the Auditing Firm this must be communicated to ADRA Mongolia, and it may be possible to extend the contract duration for a short period if donors approve this action.

1. **Management of the Audit**

The stakeholders involved in the management of the Audit include ADRA Mongolia- Country Director, Finance Manager, Accountants, Program Advisor, Project Manager and ADRA Germany Program Coordinator and Project Finance Coordinator.

1. **Compliance with applicable law**

The Auditor, at the time of submitting the offer and beyond over the years of the assignment, if awarded, must comply with applicable environmental, social and labour law obligations established by Union law, Germany legislation, Mongolian legislation, collective agreements or the international environmental, social security and labour conventions. The same compliance must be verified with regards to fiscal matters.

1. **Fraud, corruption, irregularity, etc.**

If, during the audit engagement, the Auditor or any of the Auditor employees detect possible fraud, malfeasance, breach of statutory requirements, or material discrepancy of any nature, the Auditor shall immediately report the facts of the matter to [feedback@adra.de](mailto:feedback@adra.de).

Immediately upon becoming aware of any matter that the Auditor suspects on reasonable grounds concerns or may concern corrupt conduct the Auditor shall in writing inform and make known the matter to [feedback@adra.de](mailto:feedback@adra.de).

The Auditor shall not give any advice or information regarding the matter to any person whatsoever in the absence of written directions from ADRA Germany or unless otherwise required by law.

1. **Other Matters**

The Auditor shall not subcontract without prior written authorisation from ADRA Mongolia and ADRA Germany.

1. **Terms of payment, Insurance and Liability modalities for Auditors**

The terms of payment and liability modalities for auditors and will be defined in the Audit Service Contract.

**Annex A**

**Guideline for an external, independent audit within the scope of the BMZ funding title for private executing agencies – Engagement Global – bengo**