

# Practical ACTION

## TERMS OF REFERENCE FOR PROJECT FINANCIAL AUDIT

### **Introduction to Practical Action**

Practical Action is an international development organization putting ingenious ideas to work so that people in poverty can change their world.

We help people find solutions to some of the world's toughest problems. Challenges made worse by catastrophic climate change and persistent gender inequality. We work with communities to develop ingenious, lasting and locally owned solutions for agriculture, water and waste management, climate resilience and clean energy. And we share what works with others, so answers that start small can grow big.

We are a global change-making group. The group consists of a UK registered charity with community projects in Africa, Asia and Latin America, an independent development publishing company and a technical consulting service. We combine these specialisms to multiply our impact and help shape a world that works better for everyone.

### **Background and Purpose of the assignment:**

In 2019, IKEA foundation awarded Practical Action in Kenya 6 million Euros to implement the Transforming Rural Economies and Youth Livelihoods (TREYL) project

TREYL, a five-year initiative (Jan 2019 – Jan 2024) was implemented in Kisumu and Homabay counties in Kenya. The objective of the project was to establish vibrant and inclusive rural economies in Kenya by promoting agricultural livelihoods for the youth underpinned by Agroecological principles and practices. The project aimed to break the cycles of low productivity and increasing rural poverty through a holistic and gendered approach that would enable young men and women to increase their income through agri-business.

The project built a business case to demonstrate that regenerative agriculture could be commercially successful. By the end of the project, it had worked with over 8000 young men and women to increase farm productivity and income through regenerative agriculture. To promote inclusive markets, the project had developed markets through a participatory process for poultry, groundnuts, and tomato value chains.

### **Objective of the assignment**

The primary objective of this audit assignment is to ensure the financial accountability and compliance for this project as guided by the IKEA Foundation's partnership agreement. This aims to provide an independent auditor's opinion on whether the obligations outlined in Section 2 of the Agreement have been met.

## **Scope of the Assignment**

The audit will be conducted in accordance with International Standards on Auditing (ISA) and ISRS 4400 and will cover the entire period of the award.

As part of the audit process, the auditors shall look at the following matters and report:

- The Auditor obtains an understanding of the terms and conditions of the funding by reviewing the Grant Agreement and its annexes and other relevant information. The Auditor obtains and reviews the Report (which includes a narrative and a financial section).
- The Auditor verifies that:
  - The Financial Report complies with the conditions as described in the Grant Agreement.
  - The accounts kept by the Partner for the implementation of the project are accurate and up-to-date.
  - The Partner has a double-entry book-keeping system.
  - The accounts and expenditure relating to the project are easily identifiable and verifiable.
- The Auditor reconciles the information in the Financial Report to the Partner's accounting system and records (e.g. trial balance, general ledger accounts, sub ledgers etc.)
- The Auditor verifies that amounts of expenditure incurred in a currency other than the currency of the Grant Agreement have been converted in a consistent way and explains the method.
- The Auditor carries out an analytical review of the budget headings in the Financial Report.
- The Auditor verifies that the budget in the Financial Report corresponds with the budget of the Grant Agreement and/or latest approved revision to that and that the expenditure incurred was indicated in the budget of the Grant Agreement.
- The Expenditure Coverage Ratio ('ECR') represents the total amount of expenditure verified by the Auditor expressed as a percentage of the total amount of expenditure reported by the Partner in the Financial Report. The Auditor ensures that the overall ECR is at least 65%. The Auditor ensures that the ECR for each budget heading in the Financial Report is at least 10%.
- The Auditor verifies, for each expenditure item selected, the eligibility criteria as described in Clause 2 of the Grant Agreement.
- The Auditor verifies that the expenditure for a selected item was actually incurred by and pertains to the Partner. For this purpose, the Auditor examines supporting documents (e.g. invoices, contracts) and proof of payment. The Auditor also examines proof of work done, goods received, or services rendered, and he/she verifies the existence of assets if applicable.
- The Auditor verifies that the expenditure for a selected item was incurred between the Start and End Date of the project.
- The Auditor verifies that the expenditure for a selected item was indicated in the budget.
- The Auditor verifies whether it is plausible that the expenditure for a selected item was necessary for the implementation of the project and that it had to be incurred for the activities of the project by examining the nature of the expenditure with supporting documents.
- The Auditor verifies that expenditure for a selected item is recorded in the Partner's accounting system and was recorded in accordance with the applicable accounting

standards of the country where the Partner is established and the Beneficiary's usual cost accounting practices.

- The Auditor verifies that expenditure for a selected item is substantiated by evidence (supporting documents)
- The Auditor verifies that the monetary value of a selected expenditure item agrees with underlying documents (e.g., invoices, salary statements) and that correct exchange rates are used where applicable.
- The Auditor examines the nature of the expenditure for a selected item and verifies that the expenditure item has been classified under the correct (sub)heading of the Financial Report.
- Where applicable the Auditor examines which procurement rules apply for a certain expenditure (sub)heading, a class of expenditure items or an expenditure item. The Auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents of the procurement and purchase process. Where the Auditor finds issues of non-compliance with procurement rules, he/she reports the nature of such events as well as their financial impact in terms of ineligible expenditure.
- The Auditor verifies shared costs that are charged as direct costs for the projects, selects expenditure items from those costs and verifies that Partner adopted a transparent methodology to allocate shared costs. If applicable, Auditor reviews if methodology is used evenly among donors.
- The Auditor verifies that the indirect costs to cover the administrative overheads do not exceed the mentioned % of the total amount of eligible direct costs of the project as stated in the Grant Agreement.
- The Auditor verifies whether expenditure includes certain taxes, including VAT. If this is the case the Auditor verifies that the Partner (or, where applicable the partners) cannot reclaim these taxes through an exemption system and/or a refund a posteriori. If this is the case, taxes can be considered as eligible costs.
- The Auditor examines whether revenues which should be attributed to the project (including inter alia grants and funding received from other donors and other revenue generated by the Partner in the context of the project such as for example interest earned) have been allocated to the project and disclosed in the Financial Report. For this purpose the Auditor inquires with the Partner and examines documentation obtained from the Partner. The Auditor is not expected to examine the completeness of the revenues reported.

## **DELIVERABLES**

### **Audit Report**

The Audit Report shall at least contain the following sections:

- Auditor's Report addressing all items in the scope and an opinion
- Scope & Procedures performed.
- Factual Findings (if material findings that influence Auditor's opinion)
- Signed Report by Auditor (including income and expenditure and remaining balance)

### **Proposal Submission**

Interested and qualified audit firms are invited to submit their proposal(s) comprising of the following:

1. An understanding of the requirements of this assignment.
2. Methodology and work-plan for performing the assignment.

3. Team composition and tasks assignment
4. Detailed reference list indicating the scope and magnitude of similar assignments.
5. Relevant services undertaken in the past five (5) years
6. Registration and other relevant statutory documents
7. Proposed fees for the assignment

### **Evaluation Criteria**

Technical proposal shall carry a weight of 70% while financial proposal shall carry 30%. The scoring criteria for the technical proposal is as shown in the table below:

<b>#</b>	<b>Item</b>	<b>Marks</b>
1	An understanding of the requirements of this assignment;	20
2	Methodology and work-plan for performing the assignment;	20
3	Team composition and tasks assignment	20
4	Detailed reference list indicating the scope and magnitude of similar assignments undertaken in the last 5 years;	25
5	Commencing the assignment by Mid-February	10
6	Registration and other relevant statutory documents	5
	<b>Total</b>	<b>100</b>

Technical and Financial proposals will need to be submitted as **separate documents**. Financial proposals will not be opened until the conclusion of the technical evaluation and then only for those proposals that are deemed qualified and responsive. Note that the financial proposal should include all applicable taxes.

### **Time Schedule**

The audit is expected to be conducted from End-February and concluded by 31st March 2024 with the draft report submitted to Practical Action by April 15<sup>th</sup>, 2024.

### **Disclaimer**

Practical Action reserves the right to determine the structure of the process, number of short-listed participants, the right to withdraw from the proposal process, the right to change this timetable at any time without notice and reserves the right to withdraw this tender at any time, without prior notice and without liability to compensate and/or reimburse any party.