



Global Auditor RFP Questions and Answers Document – December 2022

Q. Item 9 in the list of requirements refers to EDP operations. We're not familiar with that acronym. Can you clarify?

A. Its Electronic data processing i.e., Financial IT systems, controls and security.

Q. MC US is responsible for the coordination of the projects, which are implemented by the local MC offices. How is the accuracy and eligibility of the project expenses verified (by MCNL), including proof of delivery?

A. The local finance teams follow the MC Field Finance Manual which covers requirements and processes for field expenditure and payments including appropriate documentation and approval. These documents are available from the field as support for the expenditure incurred.

Q. How does MCNL ensure they have sufficient knowledge about the Dutch salary regulations to ensure compliance with regulation and recognition of complete and accurate expenses and liabilities?

A. HR work with MCNL finance to understand and review salary requirements, contributions and deductions. We also engage 3rd party payroll providers to perform salary calculations and submissions. Monthly reconciliations and year-end review of outstanding liabilities are performed. MCNL are currently hiring another Payroll Officer to further enhance the cover and delivery in this area.

Q. What is the policy regarding the use of foreign currency exchanges and how is this compared to donor requirements?

A. Grant agreements with donors include reference to use of suitable / specific FX exchange rates. InforEuro is our rate incorporated. Reporting is performed from our finance system for financial reporting and donor reporting purposes, using this rate for conversion.

Q. How does MCNL management maintain sufficient knowledge of Dutch GAAP, particularly RJ 650?

A. MCNL has worked with our auditor to ensure our Annual Report and Financial Statements are in line with RJ650 as appropriate, including review and registration with CBF where we are considered compliant.

Q. How are the services (and products such as laptops) from MCE charged to MCNL and how is the completeness ensured?

A. Any recharges are supported by approved timesheets (salary recharges), expense approval (expense recharges) to appropriate codes which drive booking to specific entity / intercompany.

Q. Can we receive the management letter issued for the 6/30/22 audit?

A. We received a clean unqualified audit. We will share the management letter with the finalists.

Q. What is the expected timing of the financial closing process? How much time is expected to be needed for complete responses to PBC requests?

A. Historically, following agreed deadline for Final TB and draft FS, PBC queries and requests are responded very quickly, while appreciating request for documentation from the field (field expenditure) to take longer (2 -3 weeks).

Q. Is the structure of the trial balance as shared in 2018 still in place, booking the items with an impact on the SOIE as change in the reserves?

A. The Trial Balance structure has not changed, however a version is provided which includes the SOIE detail and Balance Sheet then feeding into the primary statements.

Q. Please describe the structure of the US accounting function

A. Further clarification is needed please as to what question this is looking to answer.

Q. Is Mercy Corps paperless? If not, please describe the location of financial records.

A. No – the financial records are in the US/UK/EU and MC country offices.

Q. What financial systems are utilized by Mercy Corps? Does Mercy Corps utilize consolidation software or is this a manual process?

A. MCE & MCNL use SUN Systems with manual consolidation of MCNL into MCE.

Q. Does Mercy Corps have an internal audit function? If so, to what extent does your current firm rely upon the work of that function?

A. Yes - it is a smaller Team and there is limited reliance on the internal audit reports currently, but this is going to be adjusted when the full team is hired.

Q. Were there any unrecorded (passed) audit adjustments in 2022 or 2021?

A. Yes - 2022 NICRA Accrual adjustment. Immaterial.

Q. Besides Mercy Corps Europe and Mercy Corps Netherlands, have other international components been deemed significant in the prior two years?

A. Kompanion Bank

Q. Are there any new controlled affiliates or program-related investments? Will Energy 4 Impact be a significant component?

A. Energy 4 Impact (E4i) was acquired and is wholly owned by MC. It's grants and contracts are being novated over to MCE and staff contracts have been moved over to MC. And Humentum (Ethiopia) is planned to scale going forward.

Q. Was the mortgage with US Bank paid off during the year or refinanced? Any new debt?

A. In June of 2022, we repaid our tax-exempt note to USBank. The tax exempt had been issued by the Oregon Facilities Authority in 2015. We moved our borrowing to Wells Fargo by amending our current credit facility with them to expand the revolving credit line from \$6 million to \$10 million and create a 5 yr \$5 amortizing floating rate term note. The credit line and term note are secured by the assets and building. We also entered into a swap in July to fix the rate on the note.

Q. Does Mercy Corps need assistance with preparation of the F/S? In prior years was that done internally or performed by the auditors?

A. MCE & MCNL prepare their own FS and have done previously Ditto with Mercy Corps and Affiliates.

Q. Roughly how many microfinance loans are present in the \$ 98 million loan portfolio?

A. Almost all are Kompanion except for \$291K (SBA) in the US. We can provide more detail to the finalist if necessary.

Q. With respect to the request for incremental test work for Kompanion Bank, please elaborate on the nature of this work and what the deliverable would be.

A. Kompanion Bank is a National Bank and has a December 31st year end. Link to their financial reports: <https://www.kompanion.kg/en/about/report> The incremental test work is done over the stub period January – June. The auditor of Mercy Corps and Affiliates will need to perform adequate procedures that they rely on so that Mercy Corps share of Kompanion can be consolidated for the year ending June 30th.

Q. With respect to the request for the review of the indirect/overhead calculation, please elaborate on the nature of this work and what the deliverable would be.

A. Review and confirmation of indirect cost approach and methodology calculation. Currently we have retained BRG to support the revision of this approach.

Q. Is it Mercy Corps' policy to issue an audit RFP after each three-year cycle?

A. We do not have a set policy for this and typically renew based on need. It is best practice to review price and services provided by Auditors every 3-5 years.

Q. What is prompting you to go out to bid now?

A. Request from the Audit Committee as we haven't done an RFP in multiple years.

Q. Looking at your current audit experience, in a perfect world, what would you change? What would you retain?

A. One point of contact across the audit between MCG/MCE/MCNL. More training and support for staff and Audit Committee. Better alignment of tax and audit guidance. Additional work done at interim. Concise PBC lists including context on testing. Notification of the change in materiality levels. Upfront examples of what will be required. Agreement of deliverables and timing.

Q. What are your expectations regarding remote versus on-site work?

A. While benefits to both approaches, MCE & MCNL have performed audit fully remotely for the past 2 – 3 years and has worked well, largely by committing to quick responses and open communication at the outset, and performing regular (daily) status / PBC lists updates. As documentation and support is now all electronic, this also contributes to ease if remote audits are performed.

Q. Kindly could you confirm if the following affiliated are subject for audit scope of work:

Kompanion Development Institution
Kompanion Bank Closed Joint Stock Company (Kompanion)
Kompanion Invest
MC Nigeria LTD/GTE (Nigeria)
Mercy Corps Development Holdings, LLC
Mercy Corps Europe (MCE)
Mercy Corps India
Mercy Corps Corporate Fund (MCCF) (previously Asian Credit Public Fund)
Mercy Corps International Jordan, LLC (inactive)
Mercy Corps Netherlands (MCNL)
CIT Services, LLC

A. It depends on the level set for materiality. For the past two years, Kompanion Bank, Mercy Corps Europe (MCE), and Mercy Corps Netherlands (MCNL) have been audited. Accounts for the other entities are provided for support on consolidation.

Q. According to the audited financial statements there are grants from different donors, are these grants subject to Audit too, and please could you provide us with more details regarding the Audit geographical location for this assignment.

A. Grants may be subject to audit but are not part of this RFP. The Mercy Corps and Affiliates team works remotely in the US. The MCE and MCNL teams work remotely in the UK and the Netherlands. Offices are now open and teams are adopting a hybrid approach to work.

Q. It is required by Dutch law that entities that are registered in the Netherlands register their Ultimate Beneficial Owners (UBO) at the Dutch chamber of commerce (KvK). A beneficial owner is any person who holds more than 25% or more of the shares; has more than 25% voting power in the board/through shares or person who holds actual control as this is written in the statutes. The external auditors are obliged by Dutch law to check if every Dutch registered entity has registered this information with the KvK. Can you provide formal documentation that it has been done? This can be in the form of a print screen of an email/letter or even the registration form itself.

A. We have the UBO registration with the Chamber of Commerce (KvK). This will be shared with the selected firm.

Q. Can you provide the auditor communications document/report? (The internal document to the audit committee that describes matters such as key audit areas and any proposed audit adjustments. In the US., we also call this the required auditor communications letter. It is often provided in the form of a PowerPoint presentation).

A. This will be provided to the finalists.

Q. Has there been any significant turnover in the C level in the last 3 years?

A. Apart from the CFO, there has not been a major turnover. There recently has been the departure of the SVP of Programs with a COO and VP of Programs coming in.

Q. Has there been any significant turnover in the accounting department the last 3 years that affected the audit process? (we understand there is turnover, and we are only interested if there were disruptions with meeting deadlines for the audit)

A. No – deadlines were met. The Assistant Controller took over from the Controller on her departure.

Q. What is the composition and structure of personnel who monitor compliance? (e.g. does the compliance department report to a General Counsel, if one, or to C-level or CFO)

A. There are two compliance functions: Grants Compliance which reports to the CFO and Safeguarding and Compliance who reports to the Chief Ethics and Compliance Officer.

Q. Do you have a separate department that monitors compliance in regards to Federal Funds passed through to sub-recipients?

A. The Grants Compliance Unit in the US and UK are responsible for this function along with key staff in country offices and programs.

Q. Are there any significant changes planned relative to the scope and breadth of your organization and its operations that need to be considered in developing the scope of effort required for this audit? (e.g., any changes with microfinance ownership, any new entities etc.)

A. Not at this time.

Q. Are there any expected changes in the Federal Funding being received? (increase in activity and/or any grants from new federal agencies that maybe material). From what we see the last 4 years, major programs ranged from 1-3.

A. Not that this time. 3 Federal programs were tested this year.

Q. Do you anticipate similar activity (using 2022 information) in sub-recipient expenses for the next 3 years?

A. Yes – with a potential increase.

Q. Have you started gathering the information for the leases to implement the standard in 2023?

A. Yes, this work has begun, and we have a technical accountant on staff reporting to the controller to support this work

Q. Are there any expected changes in your IT systems?

A. Potentially.