

Terms of Reference for the Audit of Project Financial Report

Organisation subject to Audit ("Grant Recipient"): Mercy Corps Europe (Mercy Corps, 96/3 Commercial Quay, Edinburgh, EH6 6LX Scotland, UK)
Country: Iraq
Title of Grant contract: PERMA II: Promoting Economic Revival for Microbusiness and Agriculture
Contract Number: AFD CIQ 1034 01 S
Date of signature: 10th March, 2022
Contracting Authority ("Donor"): Agence Française de Développement (AFD)
Starting and final date for implementation of activities: 10th March 2022 – 9th March 2025 (3 years)
Total cost of the project: €10,000,000
Audit Period Duration: 1st January 2023 – 31st December, 2023

1. Introduction

The following are the terms of reference (TOR) on which the grant recipient agrees to engage the Auditor to perform an Audit and to report in connection with the project below.

The following terms apply:

- **'Audit'** or 'engagement' refers to this assurance engagement which is a financial and systems audit.
- **'Project'** refers to the project subject to audit as described at Section 5 (Scope) of these ToR.
- **'Grant Agreement'** can refer to any conventional or contractual document (legal commitment) signed between the donor and a grant recipient of funding through the donor. The annexes of a grant agreement also form part of a grant agreement.
- **'Donor'** refers to the French Development Agency (AFD)
- **'Contractual Conditions'** refers to the conditions, provisions, criteria which are set out in the grant agreement including grant guidelines.
- **'Financial Report'** refers to the Financial Report of the Project prepared by the grant recipient. The Financial Report presents the actual expenditure incurred for the Project for a specified period. This expenditure is the subject of this audit.
- **'Internal Control System'** refers to the Internal Control System set up and operated by the Grant recipient and is the subject of this audit.
- **'Auditor'** refers to the audit firm contracted for performing this audit and for submitting a report to the donor. 'Auditor' can refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team. The engagement partner is the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who has the appropriate authority from a professional, legal or regulatory body.
- **'Grant recipient'** refers to the grant recipient subject to audit. It is the organisation responsible for implementing the Project, which is using the funds for the Project and which is required to report on the Project and the use of funds.

1. Subject of the Engagement and Scope of Work

The subject of this engagement is the Financial Report in connection with the Grant Agreement for the period covering 10th March 2022 to 9th March 2025 and the project entitled PERMA 2: Promoting Economic Revival for Microbusiness and Agriculture in Al-Hamdaniya, Nineveh, Iraq. The project sheet is attached as Annex 3.

The Audit must be performed at Mercy Corps Iraq office in Erbil, Kurdistan of Iraq.

The Auditor should obtain a preliminary understanding of the engagement context on the basis of these Terms of reference.

The Contractual Conditions for this Project are set out in:

- The grant agreement signed by Mercy Corps Europe on 10th March, 2022 and any grant agreement amendments
- The annexes of a grant agreement also form part of a grant agreement. If Contractual conditions are not clear, the Auditor should enquire of the grant recipient or of the Donor for clarification.

The subject of the audits are:

- The expenditure and revenue as stated in the Financial Report of the Project for the period from (Audit1) 10th March 2022 to 31st December 2022, (Audit 2) 1st January 2023 to 31st December 2023, (Audit 3) 1st January 2024 to 9th March 2025; and
- The design and operating effectiveness of the Internal Control System in the same periods mentioned above; and
- The compliance of the procurement and the performance of the contracts in the same periods mentioned above
- The audit must be carried out in accordance with generally accepted auditing standards and in particular the auditing standards (International Standards on Auditing; ISAs) of the International Auditing and Assurance Standards Board (IAASB). The audit shall be carried out in accordance with the following auditing standards:
 - ISA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
 - ISA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement 1.

2. Fundamental principles

- 2.1 The Audit of the Project must be carried out by an independent auditor who has the requisite professional competence and experience (e.g. approval by the relevant national Association of Chartered Accountants), in accordance with international auditing standards ISA (International Standards on Auditing).
- 2.2 The Auditor should comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code).
- 2.3 By agreeing to these ToR the Auditor confirms that he/she meets at least one of the following conditions:
 - 2.3.1 The Auditor and/or the firm is a member of a national Association of Chartered Accountants which in turn is a member of the International Federation of Accountants (IFAC).

2.3.2 The Auditor and/or the firm is a member of a national accounting or auditing body or institution. Although this organisation is not member of the IFAC, the Auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in these ToR.

2.4 These terms of reference define the auditor's mandate to audit the Grant recipient Project funded by the Donor. The financial audit is based on the professional specifications and guidelines governing the work to be performed by an auditor.

2.5 In planning, conducting and reporting on the financial audit, the auditor must comply with ISA 805.

In addition, the relevant standards of the local accounting profession as well as the local legislation on accounting and reporting in force in the country in which the financial review is carried out need to be taken into consideration by the auditor.

3. General principles applicable to the procedures to be carried out

The auditor is required to plan and execute the financial audit mission, then to write a report on the following subjects:

3.1 Principle of financial regularity / reporting.

The auditor is required to assess whether the partner has adequate policies and procedures related to the following subjects (these are not covered by the audit engagement in accordance with the ISA, as specified above):

3.2 Existence, adequacy, design and operating effectiveness of the internal control system (ICS) for the periods from (Audit1) 10th March 2022 to 31st December 2022, (Audit 2) 1st January 2023 to 31st December 2023, (Audit 3) 1st December 2024 to 9th March 2025

3.3 Compliance with the Project's objectives and the contract.

The objective of the audit is to verify that the funds made available to the Project by the Donor have been used exclusively for the achievement of the objectives of the Project and in compliance with the rules and procedures in force within the Project. It must allow the traceability of payments from the Donor account, and their effective repayment to the partner's account used for the Project.

3.4 Economic conduct of business and efficient allocation of financial resources.

In order to comply with these principles, the auditor must analyze the questions indicated in the annexed questionnaire (Annex 1). While point 3.1 will be addressed in the audit report drawn up in accordance with the ISAs, points 3.2 to 3.4 will be highlighted by the auditor's responses to the questionnaire in Annex 1. Recommendations to management should be made based on Annex 2 (Recommendation letter).

The Audit must express an independent professional opinion on the financial situation of the program and in particular on the expenditure made from the funds paid into the project accounts in the periods considered, with regard to:

- i. administrative, accounting and financial management of the program;
- ii. compliance with the procedures provided for the implementation of the Project;
- iii. the existence and effectiveness of an adequate control system,
- iv. contractual commitments made by the partner, in order to ensure that the funds made available have been used for the purposes for which they were granted;
- v. the existence of any funding commitments made by other donors and the effective provision of these funds.

4. Compliance with procurement procedures

In particular, the Auditor should take care to:

(a) Check the conformity of the procurement process and endeavor to highlight any event that would have been likely to go against the provisions of (i) the Financing Agreement signed between the Grant recipient and AFD, (ii) the Grant recipient Procurement Plan validated by AFD, (iii) the Procedures Manual of the Grant recipient and its partners and (iv) AFD's procurement procedure when contradicting.

In particular, the auditor will check:

- The conformity of the procurement and selection method used;
- The relevance of the tender documents (in particular, the qualification criteria (if applicable) and the evaluation criteria). If a standard tender document has been validated beforehand, make sure that it has been respected.
- The transparency, openness and fairness of the invitation to tender (advertising, deadlines);
- The procedures for opening tenders, evaluating tenders and awarding contracts and their compliance with the provisions of the tender documents (on the basis of the minutes of opening tenders, analysis of offers and allocation proposals);
- The provisions of the contract (presence of the signed declaration of integrity, without modification; guarantees and insurance required, terms of remuneration);
- The acceptability of any riders concluded (reason, conditions of the rider).
- The reality of the services provided under contracts awarded as well as payments from providers to whom contracts have been awarded.

In the event that no-objection letters (NOL) are given by the Donor for some procurement, the Auditor will have to check that the NOLs have indeed been requested.

Depending on the project, the number of contracts to be awarded, the nature and the amount of these contracts, a sample audit may be planned, under the conditions previously accepted by the Donor and the Grant recipient.

(b) Check the completion of AML / CFD due diligence and control the risk of fraud, corruption or conflicts of interest

The Auditor will have to check that the AML / CFT procedures (Anti-money laundering and counter terrorist financing) have been carried out by the partner before the award of the contract(s), in particular the verification of the absence of the beneficiary/ies of the contracts or subcontractors on the three lists of financial sanctions adopted by the United Nations, the European Union and France.

The Auditor should also pay particular attention to the risk of fraud, corruption or conflict of interest.

The Auditor will present in the form of summary tables the state of financial implementation of the Project, the share of funds not or insufficiently justified according to the types of expenditure presenting anomalies, using Annex 4.

The books and accounting documents, reports of accounting and financial audits, reports of the auditors, statements of the accounts of the Project and all reports on the execution and control of the budgetary and financial years constitute the basis of verification of the Financial Report of the Project. They must faithfully report on the financial transactions of the Project, based on an exhaustive verification of the supporting documents for transactions, by reference to the accounting standards and principles, manuals and administrative procedures in force.

5. Reference documents

The audit will cover the bank account used for the implementation of the Project. It must provide assurances that the financial statements reliably present the financial transactions and the accounting balances related to the execution of each financial year.

The following documents and subjects should be considered by the auditor as basic references for carrying out the Audit:

Legislation:	National legislation
Project:	Agreement between the Donor and the Grant recipient; Budget, financing plan, program of activities related to the project; The Grant recipient Procurement Plan; The Procedures Manual of the Grant recipient and its partners; AFD's procurement guidelines; Any other document related to the Project;
Accounting:	Accounting documents subject to the Audit; Activity and financial reports related to the Project.
Auditor:	Previous Audit reports if any; Any other information requested from the Grant recipient by the Auditor.

6. Responsibilities of the Parties to the Engagement

The grant recipient refers to the organization that is receiving the grant funding and that has signed the grant agreement with the donor.

- The grant recipient is responsible for providing a Financial Report for the action financed by the Grant Agreement which complies with the terms and conditions of the Grant Agreement and for ensuring that this Financial Report can be reconciled to the grant recipient's accounting and bookkeeping system and to the underlying accounts and records. The Grant recipient is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.
- The grant recipient accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the grant recipient, and as the case may be his partners, providing full and free access to the grant recipient's staff and its accounting and bookkeeping system and underlying accounts and records.
- The Auditor is responsible for performing the agreed-upon procedures as specified in these ToR, and for submitting a report of factual findings to the grant recipient.
- The Auditor is responsible to inform the grant recipient as soon as possible about any limitations in the scope of work he/she may find prior to or during the audit. The Auditor will report any attempt by the grant recipient to restrict the scope of the audit, or any lack of co-operation on the part of the grant recipient. The Auditor will consult the Donor 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 necessary.

7. Planning of the Audit

The auditor must plan ahead its Audit mission, ensure an audit of exemplary professional quality, monitor the costs of its mission and perform it with a concern for efficiency.

Based on the information obtained during the planning phase, which includes the auditor's risk assessment, the auditor must determine:

- the type of transactions to be audited;
- the type of inventory or physical observation and the sites to be selected;
- the number of visits to be planned on site.

The auditor undertakes to ensure continuity in the method and approach specific to the Audit mission, even in the event of a change in the head of the audit team compared to the previous year.

8. Declaration of Integrity

The auditor obtains a written declaration, signed by the management of the partner organization, certifying:

- a. recognition of the organization's responsibility in establishing correct, complete, impartial accounts and financial statements, true to reality, in accordance with the Project objectives and reference documents (description of the project, contracts, budgets, etc.), and national legislation;
- b. all the books of account, supporting documents and other documents, minutes and relevant information necessary for the audit are made available to the Auditor;
- c. all the information concerning the funding received or to be received for the period under review for the project subject to control;
- d. the willingness to provide all the information and explanations requested by the Auditor within the framework of his mandate, either orally or by written confirmation;

9. Mission schedule, proposal and contract

The Auditor must propose an offer covering the costs for the duration of the project, from 10th March 2022 to 9th March 2025. The contract could be renewed upon satisfactory work result and upon the request of Mercy Corps due to an extension of time for the whole Project or it could be cancelled after each audit upon unsatisfactory work result and upon the request of Mercy Corps. Auditors are requested to advise on the duration of each mission for each yearly deliverable. Auditors are requested to provide the person/days requested to execute the mission and the team members that will be involved.

10. Audit procedures, Documentation and Evidence

The Auditor should in accordance with ISAs, 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 uses professional judgment to determine whether audit evidence is sufficient and appropriate.

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.

To reach a conclusion on the subjects mentioned below, the auditor must use appropriate audit procedures. Applied either integrally or on the basis of a sample, these procedures may include: examinations, verifications, evaluations, inspections, interviews, analyzes and other audit techniques. To make his choice of procedures, the auditor must take into account the conclusions of the risk assessment he carried out during the planning phase and during the audit work.

The Auditor should obtain a sufficient understanding of the engagement context including the Project, the grant recipient, the policies and guidelines which apply to the Project and the Contractual Conditions for the

Project which are set out in Section 5 above (Scope). The Auditor should pay specific attention to the Contractual Conditions for:

- Documentation, filing and record keeping for Project expenditure and income;
- Eligibility of Project expenditure and income;
- Procurement policies insofar these conditions are relevant to determine the eligibility of Project expenditure;
- The internal controls.

The Auditor should identify controls which are relevant and appropriate to the Project and the grant recipient and to the preparation of the grant recipient's Financial Report for the Project. Controls should be suitable for managing and mitigating risks to the achievement of the objectives of the Project.

Controls and control areas which are relevant and appropriate to the Project and the grant recipient include, but are not necessarily limited to key financial controls which are related to the revenue and expenditure categories in the financial report for the Project and the ones which are important for the management and control of the Project activities.

The understanding should be sufficient to identify and assess the:

- Risks of material errors or misstatements in the expenditure and revenue stated in the Financial Report, whether caused by error or fraud; and
- The main risks to the achievement of the objectives of the Project including risks to the Project funding provided not being used in conformity with the applicable Contractual Conditions.

For the purpose of determining what a material misstatement or error is, the Auditor will apply a materiality threshold of:

65% of the total amount of gross expenditure for the Project with a confidence level of 95%.

The Auditor may choose to apply another audit procedure if he considers it necessary for the professional performance of his Audit assignment. Upon receipt of the Audit report, the Donor - or any third party designated by the Donor – reserves its right to request other audit procedures to deal with changing circumstances in the Project or in the organization of the Grant recipient.

In order to respect the principles mentioned in point 3, the Auditor must also analyze the questions in the annexed questionnaire (Template Annex 1). Any negative response must be the subject of a recommendation in the letter to management (Template Annex 2).

The Auditor will report all financial findings regardless of the amount involved.

For the purpose of determining what is material weakness or deficiency in the Internal Control System, the Auditor should assess whether the absence or failure of a control or a series of controls results in a significant risk of material error, irregularity or fraud in the use of the Project funds provided by the Donor.

11. Closing meeting

After carrying out the Audit mission and before leaving the Grant recipient's premises, the Auditor holds a closing meeting with the managers (directors) of the Project and the staff in charge of accounting and reporting. The session deals with audit comments and results, identifies significant weaknesses in administrative and financial management (including those relating to staff skills) and makes recommendations for improving project management, accounting procedures and the Internal Control System (ICS).

12. Conclusions and Reporting

The auditor should report the results of the audit in accordance with the ISAs for reporting and the practices of his/her audit firm and the requirements of these Terms of Reference. The report should be objective, clear, concise, timely and constructive.

12.1 Audit Findings and recommendations

The Auditor should explicitly state and specify results (satisfactory and unsatisfactory) of specific procedures for obtaining audit evidence in case of doubt or uncertainty with regard to the eligibility of expenditure in the financial findings sections of the draft and final report (unless a finding is no longer valid).

The audit report should include all financial findings made by the Auditor regardless of the amount involved. Changes in the financial findings occurring between the draft and the pre-final or final report as a result of the consultation procedure should be clearly and sequentially reported.

The answers to the questionnaire (Template Annex 1) and the recommendations for management (Template Annex 2), as well as the management declaration letter must be provided in the form of separate documents attached to the Audit report.

The Auditor may, where appropriate, be requested to provide clarifications or additional information with regard to the final audit report.

The Donor may contact the Auditor for further assistance in the contradictory procedure and with the follow-up of the final audit report.

12.2 Audit opinion

Audit opinions can be unqualified, qualified, adverse or a disclaimer of opinion and should be formulated in accordance with the formats for the Independent Auditor's Report for a Financial and Systems Audit in accordance with ISA standards.

12.3 Date of the Audit Report

The date of draft and pre-final reports should be the date when these reports are sent for consultation. The date of the final audit report should be the date when the final Independent Auditor's Report is signed.

12.4 Delivery of the Report

The final report shall not exceed 20 pages, be written in English and be presented to Mercy Corps in 3 copies and one digital for onward transmission to the Donor, within 2 weeks after the last audit visit, and no later than **15 March 2023 (audit 1), 15 March 2024 (audit 2) and 15 June 2025 (audit 3)**

12.5 Signature

The financial audit report is signed by the head of the audit team. The financial report must be signed by a representative of the Grant recipient management.

Place and date: _____

For the Grant recipient: _____

For the Auditor _____

- | | |
|----------|---|
| Annex 1: | Questionnaire on the general principles applicable to the procedures to be carried out (3.2, 3.3 and 3.4) |
| Annex 2: | Recommendation letter |
| Annex 3: | Project sheet |
| Annex 4: | Qualification of Expenses |
| Annex 5: | Expenses Qualification Table |

Annex 1: Questionnaire

Instructions to the Auditor: Any negative answer to one of the questions below must give rise to additional explanations, provided in a separate point in the recommendation letter.

Questions	Yes	No	N/A	Comments
<i>Existence, adequacy, design and operating effectiveness of the internal control system – 3.2</i>				
1. Is the internal organization (structures, functions, tasks, skills, responsibilities, methods, procedures, separation of tasks, etc.) adapted, according to your impressions, to the size and activities of the partner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are the tasks related to vital functions and processes sufficiently separated (eg making commitments, concluding and signing contracts / agreements, authorizing and recording expenses, reconciling cash and bank accounts, monitoring long-term debtors and creditors, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are you certain that the ICS of the organization is suitable for the size and type of activities of the organization?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Is the ICS known, implemented and supported by documents?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are you sure that the organization is in compliance with the laws, regulations and instructions in force (eg taxes, wages, social security contributions, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Does the organization have a manual specifying the regulations specific to the local context (threshold amount and limit number of offers to request for the local purchase of goods and services, cash limits, etc.). Are these rules respected? Do they comply with local law?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Did you understand the concept of the financial information and reporting system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Does the partner have qualified collaborators, beneficiaries, etc. to whom a suspicion of fraud, misuse or waste of resources or goods can be reported?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Questions	Yes	No	N/A	Comments
<i>Compliance with the Project's objectives and the contract – 3.3</i>				
9. Is the existence of signed project agreements (AFD with the Grant recipient and / or the Grant recipient with a subcontractor/s) guaranteed before the execution of any payment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
10. Do the payments that come within the scope of the audit / control respect the contractual conditions and the agreed budget?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
11. Is the classification of charges and products in accordance with the agreed contractual budget?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
12. Do deviations from budget / work plan need to be approved before spending is committed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
13. Is the financial reporting in accordance with the project agreement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
14. Does the preparation of the financial statements for the period covered by the Audit comply with the reporting schedule?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15. Do the project managers (operational and financial staff) inspect the activities in the field and are the observations made during these visits listed in a document?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Is written confirmation of the balance of advances from the Donor available at the end of the Project year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17. Have the points raised and recorded by the Auditor in letters of recommendation in recent years been resolved properly and / or followed up in an appropriate manner by management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18. Is the communication to the Donor of significant anomalies identified in an control / Audit report (eg fraud, circumvention of controls by management, etc.) guaranteed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19. Do the partner and his possible subcontractor (s) know the legal or regulatory procedures related to VAT and other taxes applicable to the purchase of equipment and services for the activities financed by the Donor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20. Are there instructions for approving expenditure (eg principle of double checking) and are they applied?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Questions	Yes	No	N/A	Comments
21. Is the correct application of the contractual provisions related to costs and allowances (eg costs, rents, travel costs, overnight stays at the hotel, daily allowances and other compensation for project experts / consultants) warranted?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
22. Are there control procedures in order to compare the labor costs (hours) invoiced to the project with the statements of working hours of the collaborators concerned?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
23. Is the correct allocation of the partner's hours to the project (actual services) guaranteed so as to avoid double invoicing of expenses (eg on different projects)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
24. Are all assets (fixed assets) that belong to the project maintained and protected?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>Economic conduct of business and efficient allocation of financial resources – 3.4</i>				
25. Is the exclusive allocation of the project financial resources to the activities of the project guaranteed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
26. Are there appropriate measures and procedures existing in the ICS to guarantee the economical and efficient use of the committed resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
27. Is regular control of the prices and prices of equipment, services and overheads guaranteed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
28. Is the calculation of the fees (invoiced to the Donor for the services provided) transparent and certified by documents?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
29. Are all expenses of expatriate employees controlled and justified (rent, travel expenses...)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
30. Are all expenses related to national employees controlled and justified (gross salaries, social security contributions and pensions, income taxes, travel expenses, rent, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
31. Are there any instructions regarding the prohibition on using Project vehicles for private purposes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
32. Are there instructions for the use of the Project equipment after the end of the Project?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
33. Are there any instructions regarding the prohibition on the use of mobile and land telephones for private purposes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>Other topics</i>				
34.				

Annex 2 : Recommendation Letter *(suggested format)*

Project – Financial Statement Period:

Partner's name and address

Auditor's name and address

Date and signature

The task of the auditor was to assess, using the attached questionnaire, whether the partner has an appropriate course of action and procedures for dealing with the following subjects:

- **Existence, adequacy, design and operating effectiveness of the internal control system**
(principle 3.2)
- **Compliance with the Project's objectives and the contract**
(principle 3.3)
- **Economic conduct of business and efficient allocation of financial resources**
(principle 3.4)

All negative responses are included as a separate point in the management letter. They must be subject to a risk assessment by the Auditor and be monitored by the Grant recipient.

Risk assessment of the recommendation letter points

- The auditor assigns **high priority** to subjects of **high or significant importance** relating to the control environment, accounting methods or practices likely to cause a significant loss or error in the reports;
- The auditor assigns **medium priority** to subjects of **medium importance** relating to the control environment, accounting methods or practices which are not likely to result in a financial loss or a significant error in the reports;
- The auditor assigns **low priority** to matters of **minor importance** relating to the control environment, accounting methods or practices, or comments that relate only to matters of local reporting.

Conclusions and recommendations

N°	Conclusions	Recommendations	Priority	Management comments and suggested actions	Deadlines
Existence, adequacy, design and operating effectiveness of the internal control system – 3.2					
Compliance with the Project's objectives and the contract – 3.3					
Economic conduct of business and efficient allocation of financial resources – 3.4					

ANNEXE 3 Project Sheet

Promoting Economic Revival for Microbusiness and Agriculture

Country	Iraq	Sector	Agriculture	Financing tool	Grant (Sawa)	Financing amount	EUR 10m
Duration of financing	3 years,	Financial partner	-	Project start-up date	10/3/2022	Beneficiary	Mercy Corps
Partners				Triangle Génération Humanitaire Public Aid Organization (PAO)			

Introduction:

The project supports the development of rural microfinance and small enterprises as a sustainable way to revive of the agricultural economy in Ninewa and Salah-al-Din, with complementary support to innovation in high potential value chains and the promotion of community groups of diverse origins to support these common socioeconomic goals. The project will support 3 microfinance institutions and benefit an expected 10,000 vulnerable households.

Context:

In Iraq, agriculture is the main source of income for one third of the population but contributes only 5% to the GDP due to natural constraints, lack of infrastructures and decades of poor public policies. In the western part of the country, including the Ninewa and Salah-al-Din governorates, the incursion of Daesh has further damaged the existing rural economy and rural population livelihoods. Meanwhile, financial inclusion in Iraq is very low and even more so for rural populations and women. The revival of agriculture and rural MSMEs is essential to diversify the economy beyond the oil sector and to create private employment with high socioeconomic impact. Unlocking financial access is critical in the process.

Description:

The project is an extension of a first project (PERMA1). It aims at strengthening three micro finance institutions (MFIs) capacity to reach smallholder farmers and MSMEs; and provide them with affordable and tailored financial services to start, re-start and grow agricultural activities. Through an "Agricultural Investment Fund", the project will allow the extension of loans to smallholder farmers, women and youth up to a maximum of \$5,000. The MFIs will receive support to improve their loan and risk management strategies, and to expand their activity. The project will also support the expansion of Saving and Internal Lending Communities. In parallel, the project will strengthen market linkages for smallholder farmers to enable them to increase their productivity and profitability, targeting key value chains such as wheat, barley, vegetable and livestock, and their access to quality inputs, processing and preservation technologies and animal health services, as well as the sustainable rehabilitation and operation of irrigated systems.

Finally, the project will support the establishment and activity of community groups representative of the diversity of gender, ethnicity and religion with shared socio-economic goals to encourage cooperation and sustainable interactions.

The project will continue supporting Al-Hamdaniya district of Ninewa and extend to three new districts of Salah al-Din governorate (Baiji, Samarra and Tikrit) with the aim of reaching over 10,000 vulnerable households. Selection of beneficiaries will be conducted through an inclusive process in order to ensure transparency, acceptance and ownership of the project and to contribute to its sustainability.

ANNEXE 4 Classification of Expenses

Type of expense	Definition	Examples
Ineligible Expenses	Expenses: <ul style="list-style-type: none"> - For which the supporting documents provided are anomalous or unreliable; - Not provided for in the project budget. 	Renovation of a private villa (illegal character) Undated pro forma invoices (need for further analysis to determine if fraudulent or not) Taxes not provided for in the financing agreement Per diem greater than the amount provided for by the project
Irregular Expenses	Expenses whose performance does not comply with law, decree, order, etc.	Mission expenses levied in the absence of a mission order attached to the package of supporting documents, and mission expenses levied in excess of the thresholds authorized by law (per diem)
Unjustified Expenses	Expenses made but for which no supporting documents have been provided	
Inadequately Justified Expenses	Expenses for which the supporting documents provided are incomplete with regard to the classification of the Operational Manual relating to the project in particular	Lack of delivery note or certificate of service made

ANNEXE 5 Expenses Qualification Table

Date - Order No.	Dailey Logbook No.	Supporting Documentation No.	Money Transfer Form	Unjustified Amounts	Ineligible Amounts	Inadequately Justified Amounts	Line of Expenses (relevant to programming)	Description of Anomalies	Audit Comments
XXX	XXX	XXX	EX: Per diem mission assessment XXX		XXX			overpayment of 1 day	
XXX	XXX	XXX	EX: Fuel			XXX		Ex: Exceeding 100 liters of XXX vehicle	
XXX	-	XXX	EX: Payment of employee contributions	XXX	XXX			Ex: No accounting entry concerning this banking transaction which is not documented	