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**TERMS OF REFERENCE FOR INDEPENDENT AUDIT**

1. **INTRODUCTION**

Detector-Media Non-Governmental Organization (hereinafter – the Organization) is a media platform and sustainable think-tank that promotes the formation of democratic, free and professional media in Ukraine as well as the making up of the critical, thoughtful and sensible media consumer.

It was founded in 2004 under brand *Telekritika* and was rebranded in April 2016 as *Detector-Media*.

Organization has responsibility to the Danish International Development Agency (DANIDA) as well as other donors for proper financial management of funds.

These terms of reference set out objectives, scope and reports required from the auditor.

1. **BACKGROUND**

On November 16th, 2017 the Organization signed the acceptance of the Danish contribution to Detector Media’s Strategy 2017-2021 made by the Ministry of Foreign Affairs of Denmark with the support of DANIDA for 15 million DKK for the period 1 October 2017-31 December 2021. Signed detailed budget for the period 01 January 2020-31 December 2020 is $475K.

The disbursements in 2020 under all donors-funded projects are $1,107M.

In previous years, the Organization’s General Purpose Financial Statements and special purpose financial reports according to donor’s guidelines were audited by independent auditors.

Being a non-for profit organization, it is not payer of VAT and corporate profits tax.

1. **ACCOUNTING AND REPORTING STANDARDS**

The organization prepares its General Purpose Financial Statements in accordance with the National Accounting Regulations (Standards).

Reports required by donors are prepared by Organization according to Donor’s guidelines.

1. **OBJECTIVES AND SCOPE OF WORK FOR AUDIT**

The audit shall be carried out in accordance with International Standards on Auditing (ISA), issued by IAASB[[1]](#footnote-1).The audit shall be carried out by an external, independent and qualified auditor (Approved Public Accountant/Authorized Public Accountant or equivalent).

The objectives of the audit are to conduct:

* 1. **Audit of DANIDA funds**

1. Express an independent audit opinion (ISA 800) on whether the special purpose **Report on the Receipt and Use of Funds** prepared **for the period 01.01.2020 – 31.12.2020,** prepared on a cash basis, is prepared in accordance with the budget and terms of the Agreement with the Danish International Development Agency (DANIDA) dated 16.11.2017 (including all amendments). The Report shall present the following information (EUR): budget for 2020, amount of spent funds, unspent balance. The report shall separately present the following information (EUR): the balance on 31.12.2020, the amount of received funds during 2020 and unspent balance on 31.12.2020.
2. Assess control risk and identify significant deficiencies, including material weaknesses, to the extent of the auditing procedures necessary for expressing the opinion; summarize the findings on the Organization’s **internal control issues.**
3. Evaluate the **compliance** of the Organization with national **tax laws and regulations.**
4. Examine if there have been any suspected corruption cases.
5. Verify if any interest made from the contribution is accounted for in the financial report.
6. Examine whether foreign exchange gains/losses are disclosed as a separate item in the financial report.
7. Check whether the agreements with private entrepreneurs and / or its annexes include a detailed description of the assignment (topic, scope of work, rate etc.), source of financing and whether a clear definition of the assignment (topic, scope of work, rate per hour) is indicated in each act of performed works / services.
8. Check whether the civil law agreements with physical persons and / or its annexes include a detailed description of the assignment (topic, scope of work, rate etc.) and source of financing.
9. Determine if the Organization has taken adequate corrective action on **prior audit** recommendations.

The auditors must review and briefly describe in the summary section of the audit report the status of actions taken on findings and recommendations reported in prior audits of the Organization.

1. Report on compliance of the Organization with the terms of the Agreement signed with DANIDA on 16.11.2017 (including all amendments), for **FY 2020** prepared in accordance with the International Standard on Assurance Engagements 3000. The auditor shall receive a copy of the Agreement. The auditor shall check 5 largest procurements during 2020.

**4.3 Audit of General Purpose Financial Statements**

1. Express an independent audit opinion on whether the Organization’s general purpose financial statements present fairly, in all material respects the financial position **as of December 31, 2020,** and the results of operations and cash flows for the year ended in conformity with National Accounting Regulations (Standards).
2. Assess control risk and identify significant deficiencies, including material weaknesses, to the extent of the auditing procedures necessary for expressing the opinion; summarize the findings on the Organization’s **internal control issues.**
3. Determine if the Organization has taken adequate corrective actions on **prior audit** recommendations.

The auditors must review and briefly describe in the summary section of the audit report the status of actions taken on findings and recommendations reported in prior audits of the Organization.

1. Evaluate the **compliance** of the Organization with national **tax laws and regulations.**
2. The general purpose financial statements shall include a Note outlining flows of donors funds during 2020 per each project and in total (balances at the beginning of the period; total funds received; total expenditures incurred; balances at the end of the period).
3. Review if outgoing balance for previous period is the same as incoming balance for the current period.
4. Examine if the financial report includes a comparison, for every budget item, between the actual costs/expenditures of activities.
5. Provide information on the governing bodies of the Organization (including first / last name).

**4.4 Review the Special Purpose Statements** (in accordance with the International Standard on Review Engagements 2400).

The auditors shall prepare the Special Purpose Statements.

The objective of the review is to provide a moderate level of assurance that the **Special Purpose Statements**, prepared on a cash basis, for **FY 2020** are free from material misstatements.

The **Special Purpose Statements** shall provide the following information:

1. *Statements* on the flow of donor funds in the projects implemented by the Organization during 2020 (balance at the beginning of the period; total funds received; total expenditures incurred; balance at the end of the period);
2. *Note* to the Statements on the flow of donor funds (the template is provided in Annex 1). In case when the organization withholds taxes (income tax, military fee) and pays employer taxes (single social contribution), the template in Annex 2 shall apply. The Note shall outline monthly expenditures incurred by the Organization during FY 2020 with a breakdown by type of agreement:
3. *Labor agreements (employed staff* based on the organization’s staff schedule, indicating: first/last name/s, position held, full /part-time);
4. *Non-labor agreements:*
   * Civil-law agreements on provision/performance of services/works concluded *with physical persons* (indicating first/last name/s, types of services rendered)
   * *Agreements on provision/performance of services/works concluded with private entrepreneurs (indicating first/last name/s, types of services rendered)*
   * Intellectual property rights agreement/ Copyright agreements: name, surname / name of the organization, type of services / goods
   * Legal entities: name of the organization, type of services / works / goods
   * *Other types of payments.*
5. **THE REPORTING OF THE AUDITOR**

The auditor is expected to submit to the Organization:

* 1. The **auditor's report** in respect of **Report on the Receipt and Use of Funds (DANIDA)** prepared by Organization on a cash basis for the period **01.01.2020 – 31.12.2020.**
  2. The **auditor’s report** on compliance of the Organization with the terms of the Agreement signed with DANIDA on 16.11.2017, for **FY 2020** prepared in accordance with the International Standard on Assurance Engagements 3000.
  3. The independent auditor’s report in respect of **General Purpose Financial Statements for FY 2020**.
  4. **The Special Purpose Statements Report (ISRE 2400) for 2020.**
  5. **Management letter**

In conjunction with the audit, the external auditor should assess operating and *internal control procedures* that could be improved. Internal control weaknesses (findings), which are identified, should be reported by the external auditor in a formal Management Letter. The list of *findings* is not limited by the scope of work and the auditor is free to address further issues.

The reporting shall contain details regarding the used audit methodology and the scope of the audit.

The Management Letter shall also include the external auditor’s *recommendations* to address any **weaknesses identified as well as matters of non-compliance with national tax laws and regulations** and the comments thereon by the Organization management. The recommendations should be presented in priority.

The auditors must determine if the Organization has taken adequate corrective action on prior audits recommendations, review and briefly describe the status of actions taken.

Draft of the Management Letter shall be sent from the external auditors to Head of the Organization, copied to Executive Director and Finance Director of the Organization, for comment on the findings and the recommended follow-up actions. The external auditor should then prepare the final Management Letter, briefly stating the comments by management. **The final Management Letter shall be addressed to the Head of the Organization** and the Executive Director of the Organization.

The reporting shall contain an assurance that the audit was performed in accordance with IAASB’s international audit standards and by a qualified auditor.

The reporting shall contain the responsible auditor’s signature, title and the name of the audit company.

The audit reports and the Management Letter shall be prepared *in Ukrainian and English,* **each in** **3 hard copies and 1 electronic (pdf format)**.

1. **TERMS OF PERFORMANCE**

Deadlines of the audit arrangements:

* Contract negotiation and signing: until May 28th, 2021;
* Audit field work to be completed: until June 11th, 2021;
* Draft audit report and management letter: until June 18th, 2021;
* Final audit report and management letter: until June 25th, 2021.

The auditor’s report shall be provided directly to the Organization.

1. **ACCESS TO FACILITIES AND DOCUMENTS**

The Organization will grant full and complete access to all records and documents and all employees of the Organization the auditor deems necessary in order to provide a clear picture of the financial status of the Organization.

1. **AUDITOR’S SELECTION**

The auditor must be completely impartial and independent from all aspects of management or financial interests in the Organization. The auditor shall not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial, family or close business relationships, or any other relevant connection or shared interest with any senior participant in the management of the Organization. In this aspect, the Organization asks the auditor to disclose any relationship that might possibly compromise his/her independence.

An audit company that has audited the Organization for no longer than 2 consecutive years shall be selected.

* 1. **Requirements to the tender proposals:**

To participate in a tender an audit company shall submit a tender proposal that shall be delivered by a courier service (paper documents shall be sent in a sealed envelope that is protected from unauthorized access). A tender proposal shall include the following documents:

* + 1. Signed letter of interest, stating company name, address, contact information (telephone, e-mail, website address), full name of the contact person. The letter shall contain an assurance of independence, understanding of the scope of work to be performed, the objectives of the audit, audit methodology, overall capacity to carry out audit engagements including availability of audit staff and supervisors with due expertise and qualification, audit plan with a commercial offer in UAH (total cost of services and rate per hour shall be indicated), a list of reports to be delivered as a result of the audit;
    2. Copy of Extract of the State Register of Legal Entities;
    3. Copy of valid certificate on enrolment to the register of audit firms, issued by the Audit Chamber of Ukraine;
    4. Provide information and documents confirming the audit company's work experience in auditing non-profit organizations. Recommendations from 3 clients, issued not earlier than 2018, shall be provided;
    5. Data on the general number of qualified staff, seniors and managers to fulfill the set task, copies of auditor’s certificates, as well as CVs of the engagement team. Copies of professional education certificates (if any);
    6. Copy of latest Certificate, issued by the Audit Chamber of Ukraine based on external assessment of the quality control system.
  1. **Key assessment criteria:**

Tender proposals that do not fulfill the requirements to the tender proposals (8.1 Requirements to the tender proposals) shall not be subject for further assessment.

Tender proposals that fulfill the requirements to the tender proposals (8.1 Requirements to the tender proposals) shall be further assessed according to the following criteria:

|  |  |  |
| --- | --- | --- |
| Nr | Evaluation criteria | Max score |
| 1 | **Cost of Service** | 30 |
| 2 | **Audit experience**: |  |
|  | Audit experience at least 5 years | 20 |
|  | Experience in auditing non-profit organizations | 15 |
| 3 | **Qualification of the auditors** | 35 |
|  | Total score | 100 |

The following method of evaluation shall be used:

|  |  |  |
| --- | --- | --- |
| Name of the coefficient | Coefficient meaning | Value of the coefficient |
| Poor | Not addressed or not sufficient | 0 |
| Not entirely satisfactory | Sufficient in some aspects but not as a whole | 0.4 |
| Satisfactory | Sufficient but lacks substantial advantages or has uneven quality | 0.6 |
| Good | Adequate and well suited to the purpose | 0.8 |
| Very good | Gives added value and shows high quality on the whole | 1 |

The number of points that can be awarded under each of the evaluation criteria: if a maximum of 20 points can be awarded for a given criterion, “Good” will mean 0.8 x 20 = 16 points.

Annex 1: Template for the breakdown of expenditures in Note to the Statements on the flow of donor funds

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **1. Payments to staff employees from 01.01.2020 to 31.12.2020** | | | | |
|  | DANIDA | Donor 2 name | Donor 3 name | Subtotal (all donors), UAH |
| **Full Name – position, full / part-time** | | | | |
| January |  |  |  |  |
| February |  |  |  |  |
| March |  |  |  |  |
| April |  |  |  |  |
| May |  |  |  |  |
| June |  |  |  |  |
| July |  |  |  |  |
| August |  |  |  |  |
| September |  |  |  |  |
| October |  |  |  |  |
| November |  |  |  |  |
| December |  |  |  |  |
| **Subtotal, UAH** |  |  |  |  |
|  |  |  |  |  |
| **Total for the category, UAH** |  |  |  |  |
|  |  |  |  |  |
| **2. Payments to physical persons under civil law agreements from 01.01.2020 to 31.12.2020** | | | | |
|  | DANIDA | Donor 2 name | Donor 3 name | Subtotal (all donors), UAH |
| **Full Name/Contractor’s Title – type of services** | | | | |
| January |  |  |  |  |
| February |  |  |  |  |
| March |  |  |  |  |
| April |  |  |  |  |
| May |  |  |  |  |
| June |  |  |  |  |
| July |  |  |  |  |
| August |  |  |  |  |
| September |  |  |  |  |
| October |  |  |  |  |
| November |  |  |  |  |
| December |  |  |  |  |
| **Subtotal, UAH** |  |  |  |  |
|  |  |  |  |  |
| **Total for the category, UAH** |  |  |  |  |
|  |  |  |  |  |
| **3. Payments to private entrepreneurs from 01.01.2020 to 31.12.2020** | | | | |
|  | DANIDA | Donor 2 name | Donor 3 name | Subtotal (all donors), UAH |
| **Full Name/Contractor’s Title – type of services** | | | | |
| January |  |  |  |  |
| February |  |  |  |  |
| March |  |  |  |  |
| April |  |  |  |  |
| May |  |  |  |  |
| June |  |  |  |  |
| July |  |  |  |  |
| August |  |  |  |  |
| September |  |  |  |  |
| October |  |  |  |  |
| November |  |  |  |  |
| December |  |  |  |  |
| **Subtotal, UAH** |  |  |  |  |
|  |  |  |  |  |
| **Total for the category, UAH** |  |  |  |  |
|  |  |  |  |  |
| **4. Payments under intellectual property agreements from 01.01.2020 to 31.12.2020** | | | | |
|  | DANIDA | Donor 2 name | Donor 3 name | Subtotal (all donors), UAH |
| **Full Name/Contractor’s Title – type of services** | | | | |
| January |  |  |  |  |
| February |  |  |  |  |
| March |  |  |  |  |
| April |  |  |  |  |
| May |  |  |  |  |
| June |  |  |  |  |
| July |  |  |  |  |
| August |  |  |  |  |
| September |  |  |  |  |
| October |  |  |  |  |
| November |  |  |  |  |
| December |  |  |  |  |
| **Subtotal, UAH** |  |  |  |  |
|  |  |  |  |  |
| **Total for the category, UAH** |  |  |  |  |
|  |  |  |  |  |
| **5. Payments to legal entities from 01.01.2020 to 31.12.2020** | | | | |
|  | DANIDA | Donor 2 name | Donor 3 name | Subtotal (all donors), UAH |
| **Full Name/Contractor’s Title – type of services** | | | | |
| January |  |  |  |  |
| February |  |  |  |  |
| March |  |  |  |  |
| April |  |  |  |  |
| May |  |  |  |  |
| June |  |  |  |  |
| July |  |  |  |  |
| August |  |  |  |  |
| September |  |  |  |  |
| October |  |  |  |  |
| November |  |  |  |  |
| December |  |  |  |  |
| **Subtotal, UAH** |  |  |  |  |
|  |  |  |  |  |
| **Total for the category, UAH** |  |  |  |  |
|  |  |  |  |  |
| **6. Other types of payments from 01.01.2020to 31.12.2020** | | | | |
|  | DANIDA | Donor 2 name | Donor 3 name | Subtotal (all donors), UAH |
| **Full Name/Contractor’s Title – type of services** |  |  |  |  |
| January |  |  |  |  |
| February |  |  |  |  |
| March |  |  |  |  |
| April |  |  |  |  |
| May |  |  |  |  |
| June |  |  |  |  |
| July |  |  |  |  |
| August |  |  |  |  |
| September |  |  |  |  |
| October |  |  |  |  |
| November |  |  |  |  |
| December |  |  |  |  |
| **Subtotal, UAH** |  |  |  |  |
|  |  |  |  |  |
| **Total for the category, UAH** |  |  |  |  |
|  |  |  |  |  |
| **Grand total, UAH** |  |  |  |  |

**Annex 2:** Template for the breakdown of expenditures in Note to the Statements on the flow of donor funds

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **1. Payments to staff employees from 01.01.2020 to 31.12.2020** | | | | | | | | |
|  | DANIDA | Others donors | **Subtotal (all donors), UAH** | Income tax | Military fee | **Subtotal (taxes), UAH** | Employer tax (single social contribution) | **Total (incl. taxes), UAH** |
| **Full Name– position, full / part-time** | | | | | | | | |
| January |  |  |  |  |  |  |  |  |
| February |  |  |  |  |  |  |  |  |
| March |  |  |  |  |  |  |  |  |
| April |  |  |  |  |  |  |  |  |
| May |  |  |  |  |  |  |  |  |
| June |  |  |  |  |  |  |  |  |
| July |  |  |  |  |  |  |  |  |
| August |  |  |  |  |  |  |  |  |
| September |  |  |  |  |  |  |  |  |
| October |  |  |  |  |  |  |  |  |
| November |  |  |  |  |  |  |  |  |
| December |  |  |  |  |  |  |  |  |
| **Subtotal, UAH** |  |  |  |  |  |  |  |  |

1. The International Auditing and Assurances Standards Board (IAASB) [↑](#footnote-ref-1)