

TERMS OF REFERENCE (TOR)
Subject: External Audit for –
Empowering Microfinance and Enterprises for Resilience and Growth Project (EMERGE)
(ARTF Grant No. TF0C4421)

I. Introduction

The Aga Khan Foundation USA (AKF USA) seeks to engage a top-rated Chartered Accountants Firm to conduct the statutory audit for the Empowering Microfinance and Enterprises for Resilience and Growth Project (EMERGE). EMERGE is funded by the World Bank under agreement ARTF GRANT NUMBER TF0C4421, dated 9th April 2024. The project has a duration of two years and three months, running from April 2024 to June 2026, with a total budget of USD 2.8 million. It is to be implemented by AKF USA in partnership with one implementing partner: Aga Khan Foundation Afghanistan (AKF-AF), across 8 provinces in Afghanistan.

II. AKDN Background and Context

The Aga Khan Development Network (AKDN) is a group of private, international, non-denominational agencies working to improve living conditions and opportunities for people in the developing world. The Network's organizations have individual mandates that range from the fields of health and education to architecture, livelihoods development and the promotion of private enterprise. Together, they collaborate in working towards a common goal – to build institutions and projects that can respond to the challenges of social, economic and cultural change on an ongoing basis.

Aga Khan Foundation USA (AKF USA) was established as a US Charity under 501 © (3) not-for-profit organization in 1981. AKF USA mobilizes USA financial, intellectual and technical resources to support the efforts of the larger AKDN through wide-ranging partnerships with the USA government, academic and civil society institutions, the corporate sector, private Foundations and individual USA citizens.

Aga Khan Foundation USA (AKF USA) is incorporated as a non-profit, non-denominational, international development agency working in Asia and Africa to find sustainable solutions to the complex problems causing global poverty. The Foundation's principal sources of financial support are grants and contributions from individuals, government agencies, domestic and foreign corporations, and foundations, including AKF established in Geneva, Switzerland. The Foundation is a member of the Aga Khan Development Network (AKDN).

III. Project Background

The Project aims to support the demand for and supply of finance for micro and small enterprises in Afghanistan. The project is an important first step in facilitating private sector led job creation and growth through small businesses. The project's primary beneficiaries will be the microfinance providers and their borrowers (both existing and future), as well as micro and small enterprises. The geographic focus will be 15 provinces across Afghanistan (including Badakhshan, Baghlan, Balkh, Bamyan, Daikundi, Faryab, Herat, Jowzjan, Kabul, Kunduz, Nangarhar, Parwan, Samangan, Sar-e-pol, and Takhar).

The project has two components: Component 1: Reviving microfinance providers (MFPs) and Component 2: Building a pipeline of bankable micro and small enterprises.

Component 1: Reviving Micro-Finance Providers

Activities under Component 1 will strengthen the supply of finance to micro and small enterprises in Afghanistan by supporting MFPs through conditional Capital Support Grants (CSGs). The initially envisioned Technical Assistance (TA) to MFPs has been cancelled. Remaining Technical Assistance activities are provided to the Community and Enterprise Development Authority (CAEDO) to target the deployment of financial products, promote digitization, and support operational capacity building.

Component 2: Building a Pipeline of Bankable Micro and Small Enterprises

Activities under Component 2 will support the demand for credit among micro and small enterprises by providing technical assistance grant and profit rate subsidy for enterprises and connecting them to the formal financial system. The activities will include (i) support to improve bankability of businesses through the provision of technical assistance and business development training to entrepreneurs and micro-enterprises, and (ii) Technical Assistance Grant (TA) to enable them to commence operations so they can commence the journey to becoming bankable.

The project is financed by an Afghanistan Resilience Trust Fund (ARTF) recipient-executed grant of USD 2,795,704 from the World Bank. The project has a 27-month implementation period (date of project effectiveness is April 13, 2024, and the project end date is June 30, 2026).

IV. Objective

The main objective of the audit is to allow the auditor to express an opinion on the financial reports and statements of expenditures. The audit will be conducted annually with the following reporting periods for part 2 of the grant agreement and Part 2 aims to build a pipeline of bankable micro and small enterprises in Selected Provinces.

Core activities under Part 2 include:

- (a) Providing technical assistance and business development training to entrepreneurs through the Afghanistan Accelerator Prosperity program. This includes incubation-level support for product development, marketing, financial modeling, pipeline development, and climate risk mitigation.:
- (b) TA Grants:
 - Grants are issued to eligible beneficiaries under a TA Grant Agreement
 - Purpose: fund activities that improve operations, growth, and access to finance
 - Conditions include governance, fiduciary standards, environmental and social considerations, and procurement compliance

- Audit Period: Apr 2024 to June 2026

The audit reports must be presented no later than 1- August- 2026

V. Scope of Work

The audit will be performed in accordance with International Standards on Auditing (ISA), as issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants. The scope includes, but is not limited to, compliance with ISA 800 (Special Purpose Audit Engagements) and address the following key aspects:

1. Verification that funds have been used in accordance with the terms and conditions of the grant agreement;
2. Assessment of project financial reports for agreement with underlying books of accounts;
3. Evaluation of procurement practices for goods and services;
4. Review of allocation of common costs and examination of supporting documents for all project activities;
5. Verification of revenues and income generated through the project;
6. Comments and observations on the accounting records, systems, and controls examined during the audit; and
7. Must be carried out by an independent Chartered/Certified Public Accountant.

The Audit Report shall include:

- Project name and agreement number.
- Identification of project expenses and total income, with details of Assets and Liabilities into the balance sheet
- The subject of the audit.
- The financial reporting framework applied.
- The auditing standards used.
- A statement on reasonable assurance regarding whether the financial statements are free from material misstatements.
- The auditor's opinion.

In addition to the audit report, the auditor must submit a **Management Letter** addressing governance issues, including any findings or recommendations for improvements in internal controls or financial management practices.

VI. Work Location

The audit will cover the following implementing entities and their locations across Afghanistan:

- Project Implementing Entities: Aga Khan Foundation USA, Aga Khan Foundation Afghanistan
- Locations: 8 provinces in Afghanistan including Kabul, Badakhshan, Takhar, Baghlan, Kunduz, Samangan, Balkh, Bamyan, and Kabul.

VII. Confidentiality

Both parties agree to maintain the confidentiality of any sensitive information, contractual arrangements, products, or business matters that may arise during the audit. Disclosure of such information is permissible if required by legal proceedings or regulatory obligations.

VIII. Eligibility/Shortlisting Criteria

The audit firm must meet the following qualifications:

1. **Independence:** The audit firm must be fully independent, with no management, financial, or business ties to the entity being audited.
2. **Experience:**
 - The audit firm must be in business for at least 10 years.
 - Have completed at least three contracts of audits in compliance with International Auditing Standards (IAS), particularly in donor-funded projects with minimum value of USD 5000.

Key Staff Minimum Qualifications

The job descriptions and minimum qualification of the key/other professionals for the core Team of the Consultants shall be as given below:

No	Position	Minimum Qualifications
1	Audit Manager (1)	<ul style="list-style-type: none">• Master's degree in related field• Member of Institute of chartered Account/ certified accountant.• Minimum of 10 years of experience in audit• Strong leadership and team management skills.• Excellent organizational and problem-solving abilities.• Proficiency in Microsoft Office Suite and facility management software.
2	Auditors (5)	<ul style="list-style-type: none">• Master's degree in related field• Member of Institute of chartered Account/ certified accountant.• Minimum of 5 years of experience in audit• Proficiency in Microsoft Office Suite and facility management software.• Strong understanding of the local financial systems in Afghanistan.• Excellent communication and interpersonal skills.

3. **Knowledge of Afghan Context:** The audit firm should have prior experience working in Afghanistan and be familiar with the local environment, with openness to traveling within the country to conduct fieldwork.

IX. Deliverables

The key deliverables include:

- Annual Audit Reports for each year as outlined in the objective for part 2 of the grant agreement.
- A Management Letter addressing governance issues, including significant findings and recommendations for strengthening financial controls or compliance.
- Comments and observations on the accounting records, systems, and controls examined during the audit.

