Federal Republic of Somalia
Office of the Auditor General

APPENDIX A - TERMS OF REFERENCE

Terms of Reference for Consultancy Services to Provide Financial Audit Services to Gargaara Company Limited

***Project Name**:* Somalia Productive, Resilient, and Inclusive Growth (SPRING),

Project ID: P501662

A. Preamble

The Terms of Reference (ToR) is for conducting an annual financial audit of Gargaara Company Limited on behalf of and report to the Office of the Auditor General of Somalia (OAGS). The selected consulting firm is expected to provide technical support to the OAGS to carry out an annual audit of a World Bank supported Gargaara Company Limited of the Ministry of Finance of the Federal Government of Somalia (MoFS).

B. Background

In May 2025, the Federal Republic of Somalia, through its Ministry of Finance (MoF), launched the Somalia Productive, Resilient, and Inclusive Growth (SPRING) Project. The project development objective is to promote private sector-led growth and job creation by improving the business-enabling environment, strengthening the financial system, and enhancing access to finance.

The SPRING Project is structured around four components, namely (i) improving the enabling environment for the private sector, (ii) deepening financial sector reforms and strengthening institutional capacity, (iii) enhancing access to finance and resilience for MSMEs, and (iv) project management. A wide range of activities will be implemented as part of this project to reach its development objective, such as improvements to regulatory/institutional frameworks, the rollout of the digital ID system, financial sector reforms, the creation of a risk-sharing mechanism, and the provision of business development services for micro, small and medium enterprises in select economic sectors, among others.

The Ministry of Finance has secured US$105 million from the World Bank, including US$10 million from the Somalia Multi-Partner Fund, to support the implementation of the SPRING Project. As part of this initiative, under Component 3 Gargaara intends to use part of the project proceeds to finance the Consultancy Services to Provide Financial Audit Services to Gargaara Company Limited (Firm). The firm will be responsible for obtaining reasonable assurance as to whether the financial statements present a true and fair view of the financial position of the entity, its financial performance, statement of changes in equity, and cash flows of the Company.

Gargaara Company Limited ("hereby commonly referred as Gargaara") was incorporated in April 2019 as an apex Development Finance Institution (DFI) by the Federal Government of Somalia (FGS). Gargaara is the project implementing entity for the

Micro, Small, and Medium Enterprises (MSMEs) Financing Facility under the World Bank's Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP), KfW Development Bank, and the De-Risking, Inclusion and Value Enhancement of Pastoral Economies in the Horn of Africa Project (DRIVE), as well as any other financing facilities entrusted to Gargaara.

The US$31 million SCALED-UP operation was approved by World Bank Board in March 2019 and subsequently declared effective in August 2019. The project development objectives seek to increase access to basic digital financial and government services targeting entrepreneurship and employment, particularly for women. The US$15 million MSME Financing Facility under the project that Gargaara is managing is a component of SCALED-UP.

MSME access to finance is very low in Somalia. According to 2018 study by the Central Bank of Somalia, lending levels by Somali banks meet only 7% (seven percent) of the demand. Somalia ranked 186 out of 190 countries in access to credit indicator in the IFC 2019 Doing Business Report. In addition, the MSME finance market is characterized by high cost of credit, underdeveloped product range, security concerns, informality of business structures, and poor organization of MSMEs as well as the elevated levels of guarantees required by banks - sometimes much higher than the amount of the loan. These challenges cripple enterprise growth.

Somali financial institutions tend to concentrate on financing trade related transactions to larger established enterprises that have enough collateral. Besides, there is little to no investment in productive sectors such as agriculture or energy. Financial Institutions consider productive sectors as risky, especially agriculture. Further, lending to women and female-owned businesses is virtually non-existent. The welfare consequences are dire when it is estimated that women are the main breadwinners in 70 percent of Somali households.

C. Objective of the Audit

The annual audits of Gargaara Company Limited shall cover the financial years ended 31 December 2023, 31 December 2024, and 31 December 2025. The objective of the audit is to obtain reasonable assurance as to whether the financial statements present a true and fair view of the financial position of the entity, its financial performance, statement of changes in equity, and cash flows of the Company.

The audit shall be conducted as an **entity-level institutional audit** of Gargaara Company Limited rather than a standalone project-specific audit. Accordingly, the audit shall encompass the entirety of Gargaara's operations, financial activities, governance arrangements, internal controls, funding sources, and institutional systems, including all financing facilities and programs administered by Gargaara during the financial year.

This entity-level audit approach is intended to establish a single consolidated institutional audit framework capable of satisfying the fiduciary, statutory, and reporting requirements of the World Bank and other development partners. Program-specific financial information and reporting requirements relating to SCALED-UP, SPRING, DRIVE, KfW-supported facilities, and any other financing arrangements may be presented through supplementary schedules and annexes to the audited financial statements and management letter, where required.

The auditors are expected to express an independent opinion on the financial statements of Gargaara Company Limited for the years ended 31 December 2023, 31 December 2024, and 31 December 2025 and also express an opinion whether the funds made available to Gargaara Company Limited have been used for the intended purposes. The auditors are also expected to confirm if proper books of accounts have been of Gargaara have been prepared as the basis for the above financial statements.

D. Scope of the Audit

The services under this assignment are to conduct a comprehensive institutional audit of Gargaara Company Limited and report to the Auditor General who shall then issue the audit reports. The consulting firm is expected to be able to have the capacity to conduct the audit in accordance with the International Standards on Auditing (ISA) issued by a globally recognized professional accounting body. The audit will also take into account of the laws of the Federal Government of Somalia relating to companies and financial institutions. The financial statements of Gargaara Company Limited will be prepared in accordance with International Financial Reporting Standards (IFRS).

The audit report will include an Independent Auditors Report (Opinion) on the financial statements of Gargaara. The audit will also include such other required schedules or analyses as Gargaara, and funding partners have determined are necessary in order to ensure that program resources are being properly managed. The auditors should assess the organization's compliance with the provisions of the Somalia Companies Act, the SCALED-UP Financing Agreement with MSMEs and the Financing Agreements between Gargaara and Beneficiary Financial Institutions,KFW financing, SPRING and DRIVE.

The selected consulting firm is expected to carry out an external audit and draft an independent audit opinion on the financial statements of Gargaara for the financial year ended 31st December 2025 and submit to the Auditor General. The consulting firm is expected to work closely with the Office of the Auditor General of the Federal Republic of Somalia (OAGS) and issue audit reports to the Auditor General who shall review them with a view to issuing the final audit reports.

In undertaking the audit, the consulting firm may consult with other relevant stakeholders in addition to management of Gargaara as necessary. This may include the Board of Directors of Gargaara, the Minister of Finance, Director General of the Ministry of Finance, the Accountant General, SPRING/SCALED-UP Project Implementation Unit, beneficiary institutions, KFW, and financing DFIs supporting Gargaara.

A. The audit will be carried out in accordance with the International Standards on Auditing (ISA)and will include tests and verification procedures as the auditors deem necessary.

B. Perform audits as required by applicable Somali company laws and laws for financial institutions, if any, and financing DFIs agreements.

C. Plan and organize the audit on the basis of risk assessment to provide satisfactory assurance that the financial statements are free of misstatement due to fraud and errors.

D. Ascertain that lending and accountability framework is adequately documented to ensure donor funds received by the organization, loan repayments from Participating Financial Institutions (PFIs) and Micro Small and Medium Enterprises (MSME), further provide assurance that the funds are applied for the intended purpose and accounted for in accordance with funding agreements.

E. Verify that funds received by Gargaara, have been acknowledged and reflected in the financial reports/statements submitted to the users/donors.

   - Conduct a reconciliation of the disbursements from the World Bank to Gargaara designated bank account at the Central Bank of Somalia;

- Conduct reconciliation of disbursements from KFW to Gargaara and provide a schedule as an annex to the report.
- Confirm that all loan repayments are deposited into and disbursed from the Reflow Account maintained at the Central Bank of Somalia (CBS);
- Review relevant records from the PFIs to track among others the levels of non-performing loans. Check for adequacy of provision for non-performing loans for each PFI.

F. Review and report on the effectiveness of the organization's internal control systems in accordance with the International Auditing standards and funding agreements.

G. Review and report on the effectiveness of the finance system, human resource management, procurement system, as the funding structure.

H. Verify all funds have been used in accordance with the established rules and regulations for Gargaara and all development partners - SCALED-UP project, DRIVE project, SPRING and KFW other supporting DFIs and only for the purposes for which the funds were provided.

I. Goods, works and services financed have been procured in accordance with the Gargaara Company Limited established rules and procedures.

J. Appropriate supporting documents, records and books of accounts relating to all activities have been properly kept and that the financial statements presented have been prepared from such books of accounts of Gargaara.

K. The financial statements have been prepared by Gargaara management in accordance with applicable accounting standards and give a true and fair view of the financial position of Gargaara and of its receipts and expenditures for the period ended on that date.

L. Comprehensive assessment of the adequacy and effectiveness of the accounting and overall internal control system to monitor expenditures and other financial transactions.

M. Express an opinion as to reasonableness of the financial statements in all material respects.

N. Include in the audit reports an independent opinion on compliance with procedures designed to provide reasonable assurance of detecting misstatements due to errors or fraud that are material in the financial statements.

E. Fraud and Corruption

Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240, "The Auditor's responsibility to Consider Fraud in an Audit of Financial Statements". The Consulting Firm is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks, and respond appropriately to identified or suspected fraud.

F. Laws and Regulations

Consider non-compliance with relevant laws and regulations that may materially affect the financial statements. In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency laws and regulations may materially affect the financial statements as required by ISA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements".

G. Governance

Communicate audit matters of governance interest. These should arise from the audit of financial statements with those charged with governance of the entity as required by ISA 260, “Communication of Audit Matters with those Charged with Governance”.

H. Risks

The audit report shall include a consolidated institutional audit opinion covering Gargaara Company Limited as a whole entity. Where required by financing agreements or development partners, supplementary annexes and schedules may provide program-specific financial information and disclosures for individual facilities including but not limited to SCALED-UP, SPRING, DRIVE, and KfW-supported programs. In order to reduce audit risk to an acceptable low level, determine the overall responses to assess risks at the financial statement level. Thereafter, design and perform further audit procedures to respond to assessed risks at the assertion level as required by ISA 330, “The Auditor’s Procedures in Response to Assessed Risks”.

I. Deliverables

All draft audit reports and accompanying statements of financial statements shall, at a minimum, be presented in English and in Somali to the Auditor General before they are formally issued. The reports will include:

i. Original and five (5) copies of the Audit Report appended to the Financial Statements along with the reports to the Board of Directors of Gargaara, the Minister of Finance, Director General of Ministry of Finance, and the Accountant General;
ii. Management letter accompanying the audit report and audited financial statements;
iii. Completed Letter of Representation.

In addition to the audit opinion, the Consulting Firm will prepare a "management letter," in which the Consulting Firm will:

i. Give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
ii. Identify specific deficiencies and areas of weakness in systems and controls and make recommendations for their improvement;
iii. Report on the lack of compliance of each financial covenant in the relevant financing agreement;
iv. Communicate matters that have come to their attention during the audit which might have a significant impact on the implementation of the project;
v. Report on the implementation status of recommendations pertaining to previous period audit reports;
vi. Bring to the attention of the Board of Directors and the Bank any other matters that the Consulting Firm considers pertinent;
vii. Communicate matters that have come to their attention during the audit which might have a significant impact on the sustainability of the organization; and
viii. Include management's comments in the final management letter.

The signed audited financial statements together with the audit opinion of the Auditor General and management letters should be submitted promptly to the Board of Directors of Gargaara, the Ministry of Finance, and the World Bank in any case no later than 6 months after the end of the fiscal year under the audit.

It is highly desirable that the Consulting Firm becomes familiar with the World Bank's Guideline on Annual Financial Reporting for World Bank-Financed Activities (June 30, 2003), which summarizes the World Bank's financial reporting and auditing requirements. The Consulting Firm should be familiar with the "World Bank Procurement Regulations for Borrowers under Investment Project Financing (IPF): Goods, Works, Non-Consulting Services and Consulting Services" dated July 1, 2016, updated November 2020 and the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, (the Anti-Corruption Guidelines)" dated October 15, 2006 and revised in January 2011 which can be obtained from the project implementing agency. The Consulting Firm should also be familiar with the World Bank's Disbursement Handbook for World Bank Clients, Disbursement Guidelines for Projects: (May 2006). These documents are available on the World Bank's website and can also be obtained from the Task Team Leaders (TTLs) at the World Bank. The consulting firm will also be required to be familiar with the KFW guidelines./

The Consulting Firm should understand that working papers under World Bank project can be subject to the review by Client's and/or World Bank designated staff. There should be clear evidence of deep involvement of the staff from the respective Offices of Auditors General as well as transfer of knowledge to the staff. The expectation is that the staff would be able to carry out similar assignment thereafter. Copies of working papers generated on this assignment would be retained by the respective Offices of the Auditors General of the FGS and PSS. The Consulting Firm is expected to surrender all documents at the end of the assignment.

J. General

The responsibility for the preparation of financial statements including adequate disclosure is that of the management of Gargaara. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the Gargaara.

Gargaara will co-operate fully with the Consulting Firm and will make available whatever records, documentation, and other information required for carrying out the audit. The Consulting Firm should be given access to all legal documents, correspondences and any other information deemed necessary by the Consulting Firm. Independent confirmation should also be obtained of amounts disbursed and outstanding and of amounts disbursed by the end of the financial year.

K. Methodology

The Consulting Firm should state the methodology/approach of conducting the audit. Upon selection, the firm will be expected to provide a letter of engagement which will also highlight the basis of the auditor's work.

L. Duration

The appointment will be for 60 working days. To safeguard independence, there will be no further renewals/ extensions after three years of consecutive engagements.

M. Experience and qualifications of the firm

The audit firm should be registered and have a license from a national or regional professional Accountancy Body. The firm must be eligible to conduct audits in accordance with International Standards on Auditing (ISA) and affiliated with an IFAC-recognized body. The firm should have 8 years of relevant experience in accounting and auditing development projects, especially donor-funded operations. The firm shall demonstrate substantial experience in fiduciary oversight of donor-funded projects, particularly those supported by international development partners and implemented in fragile or decentralized contexts, as well as proven experience in auditing regulated commercial banks or microfinance institutions, and possess strong technical capacity, including the application of risk-based methodologies, the ability to conduct both field and desk reviews, and the effective use of digital tools for monitoring and reporting, while upholding the highest standards of independence and integrity through full disclosure of any conflicts of interest, a clean professional record, and strict adherence to transparency and ethical conduct throughout the engagement.

N. Experience and qualification of the Key Experts

The key audit team will comprise, at least:

(a) Team Leader will be a fully qualified and certified CA, CPA/ACCA, etc with Master's degree in a relevant field with at least 10 years' experience in auditing and with a sound knowledge of donor-financed projects or micro finance institutions and or commercial banks. In addition, he/she should be a member of a recognized accountancy professional body;

(b) The audit manager will be fully qualified CPA/ACCA with at least a Master's degree in auditing/accounting or equivalent with a minimum of 5 years' experience in auditing; and or micro finance institutions and or commercial banks

(c) An assistant auditor with a minimum of 3 years' experience with adequate experience and professional qualifications. Experience of having worked in an environment similar to that of Somalia