*Annex 11*

# Draft Terms of Reference For the selection of Audit Consultant

# Terms of Reference

**FOR THE AUDIT OF THE PROJECT FINANCIAL STATEMENTS (PFS) OF \_\_\_\_\_\_\_\_ PROJECT**

**I. Background**

1. The [*name of lead HEI partner*] requires an auditor to carry out an audit of the CIF Project Financial Statements (PFS) for the Project listed below.

* CIF Project Number \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. The auditor will provide an Audit Opinion on the Project Financial Statements (PFS) and Management Letter for the above project.

**II.** **Objectives**

3. The objective of the PFS is to enable the auditor to express an opinion on the financial position of the Project listed above and, on the funds, received and expenditures.

4. The prospective auditors are required to submit a proposal and a work plan to provide the audit services by addressing among other things:

* the extent (if any) that the auditor would not adhere to the agreed auditing standards and indicate any alternative standards, if any;
* whether the audit would be conducted as a completed audit (i.e., will the auditors carry out their audit after financial year-end, when the books of account are, or are being, closed);
* Whether an audit carried out after financial year-end would be supplemented by one or more interim audits during a financial year. The principal purpose is to test ongoing systems and internal controls, and to relieve pressure on the staff of the entity and on the auditor at year-end;
* the manner in which the auditor proposes to address any statutory requirements relating to audit (e.g., certifications relating to shareholders’ equity required under the companies’ act) or to which they may be implicitly bound by contractual obligations of the employer (e.g. World Bank auditing requirements);
* specific actions required on the third party (e.g., access to computer systems and records, disclosures);
* discussions before signing the opinion and report on any matters arising from the audit, and with whom these discussions would be held; and
* the timetable for provision of opinions and reports.

**III. Scope of Services**

5. **Auditing Standards and Program.** The audit will be carried out in accordance with the International Standards of Auditing (ISA) as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC), with special reference to ISA 800 (Auditor’s Report on Special Purpose Audit Engagements) and to relevant World Bank (WB) guidelines. In conducting the Projects audit, special attention should be paid to the following:

1. All funds provided by the MES (Ministry of Education and Science) have been used in accordance with the conditions of the grant with due attention to economy and efficiency, and only for the purposes for which the funds were granted;
2. Where relevant, counterpart funds have been provided and used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
3. Goods and services financed have been procured in accordance with the relevant agreement;
4. All necessary supporting documents, records, and accounts have been kept in respect of Project ventures;
5. The PFS have been prepared in accordance with generally accepted accounting principles and practices, and give a true and fair view of the financial position of the project and of resources and expenditures for the year ended;
6. Review the compliance with covenants in the agreement with respect to the financial management of the Projects;
7. Provide a statement on the scale, effectiveness and reliability of the accounting and administrative procedures of the MES;
8. Provide a report on the efficiency and economy on the use of resources;
9. Provide comments on the accounting principles adopted by the entity under audit (if other accounting principles were adopted, provide comments on the impact of the financial statements arising from deviations from international accounting standards);
10. Verify financial and administrative internal control systems.

6. The audit program will consider the risk of material misstatements resulting from fraud or error. It should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected.

7. **Accounting Policies and Changes***.* The auditor should comment on the Project’s accounting policies, and confirm the extent to which the agreed project accounting policies have been applied. In particular, the auditor should note the impact on the PFS arising from any material deviations from the agreed accounting standards. The auditor should also comment on any accounting policy changes, either during a financial year, or from one year to another.

8. **Project Financial Statements**. The Projects Financial Statements should be prepared in accordance with the cash-based International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC). In addition to the Cash Receipts and Disbursement Statement, Project Financial Statements shall include statement of Sources and Uses of Funds for the current fiscal year and accumulated to date, showing comparison of budget and actual funds received from CIF and counterpart funds separately and use of funds by main categories of expenditures.

9. The auditor should pay particular attention as to whether:

* expenditures have been made wholly and necessarily for the realization of Project objectives;
* information and explanation necessary for the purpose of the audit have been obtained;
* supporting records and documents necessary for purpose of the audit have been retained.

10. **Management Letter**. On conclusion of the audit, the auditor will prepare a Management Letter for the audited Project, detailing:

1. Any material weaknesses in the accounting and internal control systems that were identified during the audit;
2. Recommendations to rectify identified weaknesses;
3. The status of significant matters raised in previous management letters;
4. Practical recommendations on the steps that could be taken to become materially compliant with the agreed project accounting policies, together with a time frame for making these changes;
5. The degree of compliance with each of the financial covenants in the loan agreement and recommendations for improvement;
6. Matters that have come to the auditor’s attention during the course of the audit which have a significant impact on project implementation;
7. Any other matters that the auditor considers should be brought to the attention of the Project’s management; and
8. Significant matters that the auditor considers should be brought to MES and WB’s attention.

11. **Compliance with Financial Covenants***.* The auditor will confirm compliance with each financial covenant contained in the Project legal documents. Where present, the auditor should indicate the extent of any on compliance by comparing required and actual performance measurements for each financial covenant for the financial year concerned.

12. **Compliance with Financial Assurances*.*** The auditor will confirm compliance with all financial assurances contained in the Project legal documents. Where present, the auditor should indicate the extent of any noncompliance by comparing required and actual performance of the [XXXXX] in respect of these MES and/or WB requirements.

13. **Use of Funds for the Purpose Intended**. The auditor will confirm, or otherwise, that:

* All external funds have been used in accordance with the relevant financing agreements covering the Project, with due attention to economy and efficiency, and only for the purpose for which the financing was provided;
* Counterpart funds have been provided and used in accordance with the relevant financing arrangements and only for the purpose for which the financing was provided; and
* Goods and services financed have been procured in accordance with the relevant financing agreements.

14. **Record Keeping**. The auditor will pay particular attention to whether all necessary supporting documents, records, and accounts have been kept in respect of all Project activities, with clear linkages between the accounting records and the PFS. This will include: (i) computation and recalculation, including checking the mathematical accuracy of estimates, accounts or records; (ii) reconciliation, including reconciling related accounts to each other, subsidiary records to primary records and internal records to external documents; (iii) physical observation, including inspecting or counting tangible assets, such as materials, inventory, land buildings, property or equipment; (iv) confirmation, including directly confirming balances or transactions with external third parties, such as cash balances, accounts receivable or accounts payable; (v) sampling, including vouching or examining supporting documentation to determine if balances are properly stated; and (vi) tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

15. **Internal Control Systems***.* The auditor will assess the adequacy of the Project financial management systems, including internal controls, including whether: (i) proper authorizations are obtained and documented before transactions are entered into; (ii) accuracy and consistency are achieved in recording, classifying, summarizing and reporting transactions; (iii) reconciliations with internal and external evidence are performed on a timely basis by the appropriate level of management; (iv) balances can be confirmed with external parties; (v) adequate documentation and an audit trail is retained to support transactions; (vi) transactions are allowable under the agreements governing the Project; (vii) errors and omissions are detected and corrected by project personnel in the normal course of their duties, and management is informed of recurring problems or weaknesses; (viii) management does not override the normal procedures and the internal control structure; and (ix) assets are property accounted for, safeguarded and can be physically inspected.

**IV.** **Experts and Inputs**

16. The auditor must be authorized to practice in Georgia and be capable of applying the agreed auditing standards. The auditor should have adequate staff, with appropriate professional qualifications and suitable experience, including experience in auditing the accounts of entities comparable in nature, size and complexity to the entity whose audit they are to undertake.

17. To this end, the auditor is required to provide curriculum vitae (CV) of the auditors who will provide the opinions and reports, together with the CVs of managers, supervisors and key personnel likely to be involved in the audit work. These CVs should include details of audits carried out by these staff, including ongoing assignments.

18. The auditor shall not alter any conditions of Contract and substitute key experts proposed and/or agreed during Contract.

**V. Deliverables**

19. The schedule for deliverables for auditing will be as under:

|  |  |
| --- | --- |
| **Deliverables** | **Submission Date** |
| Draft Audit Report and Management Letter | Within 1 month after completion of the Project |
| Final Audit Report and Management Letter | Within 10 calendar day after receiving comments from the XXX. |

20. The financial statements and auditor’s opinion thereon shall be submitted in both Georgian and English. The auditor shall present 6 hard copies of each report in Georgian, 6 hard copies of each report in English and the electronic versions of each in Ms Word and PDF formats, as well as in excel (for the Tables).

**VI. Payment Terms**

21. The lump sum payment will be linked to the deliverables of the respective financial year audits, according to following schedule:

|  |  |
| --- | --- |
| **Deliverables** | **Payment Schedule** |
| **-** | **-** |
| Final Audit Report and Management Letter | 100% of the total Contract Price upon submission of the Final Report and Management Letter |

**VII. Support from Contracting Authority**

22. Contracting Authority will provide suitable office space for carrying out the services, and all the available required project documentation related to assignment.

23. The auditor will be impartial and independent from any aspects of management or financial interest in the entity under audit. In particular, the auditor should be independent of the control of the entity. The auditor should not, during the period covered by the audit, be employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditor should not have any close personal relationships with any senior participant in the management of the entity. The auditor must disclose any issues or relationships that might compromise their independence.