

## **Terms of Reference for Independent Audit Service Year 2023/024 (2080/81)**

### **General**

ADRA Nepal requires an independent audit firm to conduct the statutory audit per Nepal's generally accepted accounting principles. The audit firm is required to perform the following:

- Statutory audit for FY BS 2080/81 and AD 2023/24 (1<sup>st</sup> Shrawan 2080- 31<sup>st</sup> Ashad 2081, 17 July 2023- 15 July 024) & individual project audits (on a need basis) within the year of the agreement period.
- Project Audit of TERA I (YR II- Aug 2023- July 2024) for the Project Period. ADRA Nepal will provide separate TORs for projects.
- The audit should be conducted according to the Nationally accepted auditing standards guidelines inclusive of directives of funding agencies.
- The scope of the audit covers the Country Office and the implementing partners' expenditures which include (1) all disbursements listed in different financial reports submitted by the implementing partner and (2) the direct payments processed by ADRA on their behalf.
- Draft Annual statutory audit to be submitted by 15<sup>th</sup> September 2024 & final report by 6<sup>th</sup> October 2024 and final project audits report of TERA I 30<sup>th</sup> Oct 2024.
- Pointwise observation of the draft audit report to be shared with management followed by presentation of each of the audit observations and its implications.
- The final statutory audit report package should also include certified financial statements, inclusive of cash positions and the assets/equipment, the Auditor's opinion, a management letter detailing shortcomings in internal controls, procedures adopted in the audit and practices, and relevant recommendations, and Special reports if required.
- The required date of the draft and final report of individual project audit will be provided to the Auditor at least a month ahead.
- Support in income filing to/at the Tax Office
- The agreement will be signed by both of the parties with mutually agreed terms & conditions.

### **Required Audit Services**

The scope of the audit shall cover overall management of ADRA including implementation, monitoring, and supervision projects. The audit work should include the review of work plans, progress reports, project resources, project budgets, project expenditure, project delivery, recruitment, operational and financial closing of projects (if applicable), and disposal or transfer of assets. To this effect, the scope of the audit shall cover the following areas too:

**Finance:**

The audit work shall cover the adequacy (completeness, accuracy & regularity) of the accounting and financial operations and reporting systems. These include budget control, cash management, certification and approving authority, receipt of funds, disbursement of funds, verification of expenditures, mathematical accuracies, recording of financial transactions, records maintenance, and control.

**Procurement:**

The audit work shall cover the competitiveness, transparency, and effectiveness of the procurement activities of the project to ensure that the equipment and services purchased meet the requirements of ADRA and the donors.

- As applicable, delegations of authorities, procurement thresholds, calls for bids and proposals, evaluation of bids and proposals, and approval/signature of contracts and purchase orders.
- Receiving and inspection procedures to determine the conformity of equipment with the agreed specifications.
- Evaluation of the procedures established to mitigate the risk of purchasing equipment that does not meet specifications or is later proven to be defective.
- Management and control over the variation orders.
- The audit work in procurement shall also cover the use of consulting firms and the adequacy of procedures to obtain fully qualified and experienced personnel and assessment of their work before final payment is made.

**Cash Management:**

The audit work shall cover all cash funds and review procedures for safeguarding cash.

**Asset Management:**

The audit work shall cover equipment (typically office equipment & vehicles) purchased for use in the project. The procedures for receipt, storage, and disposal shall also be reviewed.

**General Administration:**

The audit work shall cover travel activities, vehicle management (inclusive of logbooks, fueling, and mileage), handling services, office premises and lease management, office communications, and records maintenance.

**Human resources:**

The audit work shall cover the competitiveness, transparency, and effectiveness of the recruitment and hiring of personnel and include performance appraisal, attendance control, timesheets, calculation of salaries and entitlements, payroll preparation and payment, and management of personnel records.

**Information System:**

The audit work shall cover the information and communication systems and the control and security of equipment and data.

**Assessment of Internal Control**

The auditor is expected to conduct a general assessment of established internal controls including:

- expenditures made by the implementing partner and assessed whether they are by the project document/ agreement.
- processes for procurement contracting activities and assess whether it was transparent and competitive.
- use, control, and disposal of non-expendable equipment and assess whether it complies with the ADRA requirements; whether the equipment procured met the identified needs, and whether its use was in line with intended purposes.
- processes for recruiting project personnel and consultants and assess whether it was transparent and competitive.
- implementing partners' accounting records and assessing their adequacy for maintaining accurate and complete records of receipts and disbursements of cash; and for supporting the preparation of the quarterly financial report.
- records of requests for direct payments and ensure that they were signed by authorized government officials.

### **Review of Project Progress**

The general review of project progress should include the following:

- Review annual and quarterly work plans, quarterly financial reports, and requests for direct payments and assess in terms of their timeliness and compliance with the project document and/or Annual Work Plan.
- Review the Annual Project Reports prepared by the implementing partner and assess them in terms of compliance with Donor requirements.
- Review whether the decisions and/or recommendations of the above activities have been followed through by the implementing partner.
- Review the pace of project progress and comment on the causes of delays.
- Comment on whether implementation services of the ADRA were provided in line with the project document or AWP.

### **Management Letter**

The auditor will also submit a management letter soon after the completion of the audit that includes the following topics/issues:

- A general review of project progress and timeliness to progress milestones and the planned completion date. This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs. However general compliance with broad covenants such as implementing the project with economy and efficiency might be commented upon but not with the legal force of an audit opinion.
- An assessment of the project's internal control system with equal emphasis on the effectiveness of the system in providing the project management with useful and timely information for the proper management of the project and

(ii) the general effectiveness of the internal control system in protecting the assets and resources of the project.

- A description of any specific internal control weaknesses noted in the financial management of the project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted should be included.

### **Recommendations**

Recommendations should be directed to the Country Director of ADRA Nepal. The auditor may also wish to comment on "good practices" that were developed by the implementing partner(s) and/or ADRA.

### **Qualifications of Auditor:**

- The auditor must be completely impartial and independent from all aspects of management or financial interests in ADRA & in implementing partners.
- The auditor should 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 or close business relationships with any senior participant in the management of the entity.
- The auditor should be experienced in applying all applicable relevant auditing standards.
- The auditor must employ adequate audit staff with appropriate professional qualifications and suitable experience.
- The audit firm should have at least 7 years of experience in auditing the financial statements of entities similar in size and complexity.
- The audit should have experience in auditing INGO-supported projects.
- The audit firm must have registered and should be renewed from The Institute of Chartered Accountant of Nepal.
- Curriculum vitae of Key audit team members responsible for signing and managing the audit should be shared. CVs should include details of major and relevant assignments and experiences only.

### **Right to Access**

The auditor will have complete access to all records and documents (including books of account, legal agreements, meeting minutes, bank records, invoices, and contracts) and all employees. The auditor will have a right of access to banks, consultants, contractors, and other persons or firms engaged by the project management.