

Terms of Reference

ADB Grant No.: 6002-KGZ

Project Design Advance for the Preparation of Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project

AUDIT OF ANNUAL PROJECT FINANCIAL STATEMENTS (APFS) AUDITOR'S TERMS OF REFERENCE

Introduction

1. According to Clause 4.02 (a) of the Financing Agreement between the Government of the Kyrgyz Republic and Asian Development Bank for the Project Design Advance for the Preparation of Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project dated June 03, 2015 the Beneficiary shall (i) maintain separate accounts and records for the Project, including separate accounts and records for the Loan and Grant; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience, and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) have the auditors prepare a report (which includes the auditor's opinion on the financial statements, use of the Loan and grant proceeds and compliance with the financial covenants of the Financing Agreement as well as on the use of the procedures for imprest fund(s) and statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

2. This Terms of Reference describes the assignment scope to cover audit services for fiscal years 2016 and 2017 (up to project closing date, i.e. July 31, 2017).

General Background

3. The proposed Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project will improve national and regional connectivity by rehabilitating an estimated 253 kilometers (km) of road sections connecting the CAREC corridors 1 and 3 in the center of the Kyrgyz Republic. The Government of the Kyrgyz Republic requested project design advance (PDA) financing in the form of a grant to support preparatory activities for the project, as further discussed in section II.

4. The Project financed by ADB will have the following outputs:

- (i) During the PDA financing period, the government through the consultant will deliver the detailed engineering design and bidding documents.

The proposed ensuing project outputs will be (i) rehabilitated roads (a) from Balykchy village to kilometer marker 43, approximately 43 km; (b) from Kochkor village to Jyldyz village, approximately 119 km; and (c) from Aral village to CAREC 3 road corridor (via Suusamyр valley), approximately 91 km; and (ii) strengthened institutional capacity. These will result in the outcome, which is improved efficiency

and safer movement of goods and people on the CAREC Corridors 1 and 3 connector road

5. The Ministry of Transport and Roads (MoTR) of the Kyrgyz Republic is currently the executing agency (EA) for ongoing ADB-financed projects and serves as such for this Project. The existing investment projects implementation group (IPIG) under the EA shall (i) monitor the progress of day-to-day project implementation, (ii) prepare withdrawal applications, (iii) prepare project progress reports, and (iv) maintain project accounts and complete financial records for auditing the Project. The director of the existing IPIG shall be responsible for the day-to-day supervision of implementation activities.

Expertise preferred for this assignment includes:

a. Team Leader (0.5 person-months over a period of one year)

Qualification requirements

- Minimum of 15 years general experience, including at least 5 years relevant project audit experience as below.
- Obtained higher education in accountancy, licensed, and a member of a relevant professional body.

b. Auditor-Consultant (1.0 person-months over a period of one year)

Qualification requirements

- Minimum of 10 years general experience, including at least 3 years relevant project audit experience as below
- Obtained higher education in accountancy, licensed, and a member of a relevant professional body.

c. Auditor (1.5 person-months over a period of one year)

Qualification requirements

- Minimum of 5 years general experience, including at least 1 year relevant project audit experience as below.
- Obtained higher education in accountancy, licensed, and a member of a relevant professional body.

Required experience for all 3 experts:

- Evaluation of the systems and operating procedures for accounting in accordance with international accounting standards, custody of assets, control of environment and internal financial control, financial reporting, and related systems
- Checking of accuracy and documentary completeness of payments to contractors and consultants in accordance with the respective contracts
- Assessment of compliance with the covenants and all other project documents and ADB procedures
- Preparation of audit report for similar projects involving internationally-funded infrastructure projects with contract value of approximately US\$20 million (implemented over approximately three years, preferably within the MOTC, administered by

consultants and project implementation units, including use of direct payment and imprest accounts).

Employment Authority

6. The audit services will be contracted by the MoTR, Kyrgyz Republic.

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Delivery of Opinions and Reports

7. The auditor will provide the Audit Opinion on the PDA Annual Project Accounts (APA) with Management Letter (with copies to ADB), in accordance with the following timeframes:

- For the fiscal year ending 2016 by the end of May 2017;
- For the fiscal year ending 2017 by the end of August 2017.

8. Each Audit Report (project accounts, financial statements), should be submitted to ADB not more than 6 months following the end of the fiscal year as specified in the Grant Agreement of the project between ADB and the Government.

9. All reports must be provided in four copies in the English and Russian languages.

Objectives

10. The objective of the PDA APA audit is to enable the auditor to express an opinion on the financial position of the loan for the fiscal year years ending 2016 and 7 month in 2017 and on the funds received and expenditures made within the audit years.

11. An audit report must include: (i) title of the auditor; (ii) date of the report; (iii) addressee (EA and/or Recipient); (iv) identification of the financial information audited; (v) a reference to auditing standards or practices followed; (vi) an expression of opinion, including a qualification; disclaimer or declining of an opinion on the financial information; (vii) the auditor's signature; (viii) auditor's address; and (ix) date of signing of the report.

Description of Materials and Timing of Delivery

12. The APFS and supporting documentation will be provided to the auditor on the following estimated dates:

- For the year of 2016 beginning of May 2017;
- For the year of 2017 (7 month) beginning of August 2017.

Audit Scope

13. The auditor's examination should include an evaluation of the systems and operating procedures for accounting, custody of assets, control of environment and internal financial control, financial reporting, and related systems. An analysis of explanations submitted to the auditor and all information necessary to support the auditor's opinion and to construct the report of the auditor, will be provided by the IPIG, MOTC.

14. The auditor should obtain an understanding of the project and the IPIG, MOTC, including the contents of the PDA Grant Agreement and the ADB's guidelines, i.e., Financial

Management and Analysis of Project, 2005, Loan Disbursement Handbook, Procurement Handbook, etc.

15. **Auditing Standards and Program.** The audit will be carried out in accordance with the agreed auditing standards as specified in the PDA Grant Agreement, including professional or general standards, standards of fieldwork, and reporting standards.

16. 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.

17. **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 APA 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.

18. **Statements of Expenditures (SOE).** The auditor will audit all SOEs used as the basis for the submission of grant and credit withdrawal applications to ADB as well as governmental withdrawal applications to the GoKR. These expenditures should be compared for project eligibility with the relevant financing agreements (and with reference to the RRP and other project documents for guidance when considered necessary). Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor. The annual audit report should include a separate paragraph commenting on the accuracy and propriety of expenditures withdrawn under SOE procedures, and the extent to which ADB can rely on those SOEs as a basis for grant and credit disbursement. Annexed to the APA should be a schedule listing individual SOE withdrawal applications by specific reference number and amount.

19. **Compliance with Financial Covenants.** The auditor will confirm compliance with each financial covenant contained in the PDA Grant Agreement. Where present, the auditor should indicate the extent of any noncompliance by comparing required and actual performance measurements for each financial covenant with the financial year concerned.

20. **Compliance with Financial Assurances.** The auditor will confirm compliance with all financial assurances contained in the PDA Grant Agreement (see terms and definitions). Where present, the auditor should indicate the extent of any non-compliance by comparing required and actual performance of the Recipient in respect of these ADB requirements for the financial year concerned.

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

- All funds have been used in accordance with the PDA Grant Agreement, with due attention to economy and efficiency, and only for the purpose for which the financing was provided.
- Counterpart funds, i.e. Government and/or co-financiers have been provided and used in accordance with the relevant financing arrangements and only for the purpose for which the financing was provided and
- Services financed have been procured in accordance with the PDA Grant Agreement.

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 PDA APA. 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; and (iii) tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

Internal Control Systems. The auditor will assess the adequacy of the PDA 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..

Management Letters

On conclusion of the audit, the auditor will prepare a management letter for the audited project, detailing:

- Any material weaknesses in the accounting and internal control systems that were identified during the audit, including those regarding SOEs (if applicable);
- Recommendations to rectify identified weaknesses;
- Status of significant matters raised in previous management letters;
- 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;
- The degree of compliance with each covenant in the PDA Grant Agreement and recommendations for improvement;
- Matters that have come to the auditor's attention during the course of the audit which have a significant impact on project implementation;
- Any other matters that the auditor considers should be brought to the attention of the project's management; and
- Significant matters that the auditor considers should be brought to ADB's attention. Significant matters that the auditor considers should be brought to ADB's attention.

Statement of Access

The auditor will have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreements, bank records, invoices, and any other information associated with the project and deemed necessary by the auditor.

The auditor will be provided with full cooperation by all employees of MoTR and the IPIG, whose activities involve, or may be reflected in, the annual financial statements. The auditor will be assured rights of access to banks and depositories, consultants, contractors, and other persons or firms hired by the employer.

Independence

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.

Auditor and Audit Staff Competence

The auditor must be authorized to practice in the country 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 with the entity whose audit they are to undertake.

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.

Submission of Proposal and Work Plan

You are invited to submit a proposal and a work plan to provide the audit services described in this letter. Proposals should address, among other things:

- The extent (if any) that you would not conform to the agreed auditing standards and indicate any alternative standards to which you may (be required to) conform.
- 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., ADB auditing requirements, Statements of Expenditure, Imprest Accounts).
- Procedural requirements for certain verification procedures (e.g., checking of stocks, inventories, assets, etc.).
- Specific actions required on the part of the employer (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.
- The timetable for provision of opinions and reports.

TERMS AND DEFINITIONS

This section defines the terms used in this document.

a. Annual Project Financial Statements (APFS)

The APFS comprise:

- Statement of Accounting Policies,
- Statement of Cash Flows/Cash Receipts and Payments,
- Statement of Uses of Funds by Project activity,
- Notes to the Financial Statements, and
- Other information including, (a) summary of received funds indicating individually ADB funds, (b) summary of expenditures indicated under the Project main components and main expenditure categories (as stated in loan documents) and cumulative Project expenditures, and (c) balance statement covering each audit period.

b. Agreed Project Accounting Policies

“Agreed project accounting policies” with regards to preparation of Annual Project Accounts, means the International Public Sector Accounting Standards (IPSAS) (cash method of accounting) issued by the Committee for public sector accounting of the International Federation of Accountants (IFAC).

c. Agreed Auditing Standards

“Agreed auditing standards” means the International Standards on Auditing (ISA 800) promulgated by the International Auditing and Assurance Standards Board (IAASB).

d. Financial assurances

The following financial assurances were provided (item 10, Annex 5, Loan Agreement):

Without restricted application of the Loan Provision Section 6.06, the Borrower shall ensure timely provision of all funds and resources required for the Project implementation, in accordance with the financing plan agreed for the purposes of the Project.