

# **Terms of Reference**

## **Agreement between the Kyrgyz Republic and the Eurasian Development Bank on granting the investment loan from the Anti-crisis Fund of the Eurasian Economic Community**

### **Reconstruction of Bishkek-Osh Road Project, Phase IV, section Madaniyat-Djalal-Abad**

#### **Audit of Financial Statements (FS)**

##### **1. Introduction**

In accordance with Clause 4.04 (a) of Annex 1 to the Investment Loan Agreement (“Agreement”) between the Kyrgyz Republic ( “Beneficiary”) and the Eurasian Development Bank, the Resources Manager of the Eurasian Fund for Stabilization and Development (“Manager”) for the Bishkek-Osh Reconstruction Project, Phase IV, Section Madaniyat-Jalal-Abad (“Project”) dated March 20, 2014 the Beneficiary shall (a) maintain the financial management system for the Investment Loan proceeds, including records and accounts and prepare financial statements in accordance with the Accounting and Reporting Rules acceptable to the Manager, which are consistently applied and properly reflect the activities, resources and expenditures related to the Project; (b) auditing the financial statements for each financial year in accordance with applicable auditing standards acceptable to the Manager, using independent auditors acceptable to the Manager; (c) furnish to the Manager, within the time limits specified in the relevant Investment Loan Agreement, certified copies of the audited financial statements, with the opinion(s) of the above auditors on the financial statements to the extent and in detail satisfactory to the Manager and such other information concerning these documents and the audit thereof as Manager shall from time to time reasonably request.

This Terms of Reference describes the assignment scope to cover audit services for fiscal years: 2014 - 2021 (up to project closing date).

##### **2. Terms and Definitions**

This section defines the terms used in this document.

Annual Project Financial Statements (APFS) comprise:

- Statement of Accounting Policies,
- Statement of Cash Flows
- Statement of Uses of Funds by Project activity,
- Notes to the Financial Statements, and
- Other information including, (a) summary of received funds indicating individually Manager’s and counterparts funds, (b) summary of expenditures indicated under the Project main components and main expenditure categories (as stated in the Agreement) and cumulative Project expenditures.

##### **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).

##### **Agreed Auditing Standards**

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

##### **General background**

The Ministry of Transport and Roads (MoTR) of the Kyrgyz Republic is currently the executing agency (EA) 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 prepare APFS for auditing the Project.

The director of the existing IPIG shall be responsible for the day-to-day supervision of implementation activities. The total cost of the project amounts to 72 million USD, including 60 million USD of loan funds of EFSD and 12 million USD of GKR co-financing. An approximate breakdown of expenses by years is presented in the table below: in thousands of USD.

Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Plan 2019	Plan 2020	Plan 2021
0	0	0	0	7 924.9	6 883,2	21 243,4	16624,0

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

Contact Person: Mr. Zh. Beishenov, Minister of Transport and Roads KR

Address: 42, Isanov Street, Bishkek, Kyrgyz Republic

Tel: +996 312 900970, 900893

Fax: +996 312 314378

e-mail: bishkekoshroad@infotel.kg

### 3. Objectives

The objective of the APFS audit is to enable the auditor to express an opinion on the financial position of the project and on the funds received and expenditures made during the following periods:

- from 15 September 2014 to 31 December 2018;
- From 1 January 2019 to 31 December 2019;
- From 1 January 2020 to 31 December 2020;
- From 1 January 2021 to 31 December 2021.

### 4. Description

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 covering the following:

**Auditing Standards and Program.** The audit will be carried out in accordance with the agreed auditing standards. 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.

- **Accounting policies.** The auditor should comment on the project's accounting policies, and assess the extent to which the agreed project accounting policies have been applied. In particular, the auditor should note the impact on the APFS 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.
- **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 noncompliance by comparing required and actual performance measurements for each financial covenant with the financial year concerned.
- **Use of Funds for the Purpose Intended.** The auditor will confirm that All external funds have been used in accordance with the relevant financing agreements covering each project, 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
- **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 APFS. 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 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.
- **Project specifics.** The auditor should understand nature of the project, know the functions of the IPIG MOTR KR, as well as the content of the Agreement, PIU (Project Implementation Unit), policies and procedures applied under the Project.

## **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;
- 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 of the financial covenants in the Financing 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 Manager's attention.

## **5. Access**

The auditor will have full and complete access, at all reasonable times, to all records and documents including APFS, 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.

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

- For the period from 15 September 2014 to 31 December 2018 - 30 April 2019
- For the period from 1 January 2019 to 31 December 2019 - by 20 April 2020
- For the period from 1 January 2020 to 31 December 2020 - by 20 April 2021
- For the period from 1 January 2021 to 31 December 2021 - 20 April 2022

## **Delivery of Opinions and Report**

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

- For the period from 15 September 2014 to 31 December 2018 – by 30 May 2019
- For the period from 1 January 2019 to 31 December 2019 - by 30 May 2020
- For the period from 1 January 2020 to 31 December 2020 - by 30 May 2021
- For the period from 1 January 2021 to 31 December 2021 – by 30 May 2022

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

## Requirements

### • 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.

Expertise preferred for this assignment includes:

- a. **Team Leader (8 person-months over a period of four years)**
  - More than 10 years' total experience, including at least 5 years' relevant project auditing experience (see below)
  - Higher education and qualification in accountancy, and membership of relevant professional body, chartered status
- b. **Auditor-consultant (2 person-months over a period of for four years)**
  - Minimum 10 years' total experience, including at least 3 years' relevant project audit experience (see below)
  - Higher education and qualification in accountancy, and membership of relevant professional body, chartered status
- c. **Auditor (2 person-months over a period of for four years)**
  - Minimum 5 years' total experience, including at least 1-year relevant project audit experience (see below)
  - Higher education and qualification in accountancy, and membership of relevant professional body, chartered status

All personnel assigned to this assignment must be able to carry out:

- 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 correctness 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 WB procedures,
- preparation of audit reports for similar projects including multilaterally-funded infrastructure projects/contracts of approximately US\$72 million value (implemented over approximately four years, preferably within the MoTR, administered by consultants and project implementation units, including use of direct payment and imprest accounts).

The auditor is required to provide curriculum vitae (CV) of the auditors according to the form indicated in RFP 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.

## 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.

## **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 TOR. 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., Manager's auditing requirements, Statements of Expenditure, Imprest Accounts).
- Procedural requirements for certain verification procedures (e.g., checking of stocks, inventories, assets, etc.).