

**TERMS OF REFERENCE FOR
THE FINANCIAL AUDIT AND FACTUAL FINDINGS
OF**

Mari culture Enterprise Development Project (MEDEP)

1. Background

- The International Fund for Agricultural Development (IFAD) aids the Borrower/Recipient in the form of Grant.
- A Financing Grant Agreement(s) has been signed between IFAD and the Borrower Ministry of Finance and Treasury - refer annex 1.
- IFAD requires the Borrower/Recipient to appoint an independent auditor to audit the accounts related to the project in accordance with the IFAD Handbook on Financial Reporting and Auditing.
- The reporting entity is Ministry of Fisheries and Agriculture (MOFA).
- The entity prepares its financial statements in accordance with IPSAS, "Financial Reporting under the Cash Basis of Accounting".
- The auditor conducts its audit in terms of International Standards on Auditing (ISA)

2. Objectives

The objective of this audit is to enable the Auditor to express an opinion on whether the financial statements (including additional disclosures as outlined in Section 5.), present fairly, in all material respects, the financial position of the Reporting Entity as at 30th September 2019 and/or the results of its operations and its cash flows for the years then ended in conformity with the International Standards of Auditing.

The Auditor is also requested to review the status of the contract with Barakathul Bahurul Pvt. Ltd. and the line credit with the Bank of Maldives. The auditor will report on the current status of the contract and the status of the liabilities of the beneficiaries from the credit line according to IFAD recommendations of the Implementation Supervision mission of January 2019.

3. The responsibilities of the Implementing Agency (MOFA/PIU)

i. General

- Provide financial statements for the activities financed by the grant which is reconcilable to its records and accounts.
- Provide the auditor with access to all legal documents, correspondence with consultants, contractors and other persons or firms engaged by the project and any other information associated with the project and deemed necessary by the auditor.
- Ensure that the accounting policies are consistently applied and disclosed.
- Ensure that appropriate internal controls are implemented to prevent misstatements and susceptibility to fraud.
- Ensure compliance with all relevant laws and regulations that pertain to the entity as well as the financing agreement between the Recipient and IFAD.

- Provide the financial statements to the auditor within a reasonable time and to be available for any queries that the auditor may have.

ii. Financial statements

The Recipient shall:

- Prepare financial statements covering the reporting period 1st January 2019 to 30th September 2019 in accordance with IPSAS/IPSAS Financial Reporting under the cash basis of accounting. In addition, the following specific disclosures will be included in the financial statements:
 - Withdrawal application statement – annex 1 to the IFAD Handbook on Financial Reporting and Auditing for IFAD-Funded Projects
 - Sources and uses of funds statement – annex 2 to the IFAD Handbook on Financial Reporting and Auditing for IFAD-Funded Projects
 - Designated account statement and reconciliation – annex 3 to the IFAD Handbook on Financial Reporting and Auditing for IFAD-Funded Projects
 - Certified statement of expenditure – annex 5 to the IFAD Handbook on Financial Reporting and Auditing for IFAD-Funded Projects
 - Expenditure transaction list - annex 6 to the IFAD Handbook on Financial Reporting and Auditing for IFAD-Funded Projects

4. The responsibilities of the auditor

i. Auditing standards

- The auditor is responsible for the formulation of an opinion on the financial statements in accordance with *ISA*;

ii. General Principles

By agreeing these terms, the Auditor confirms that:

- The firm is independent from the project, its staff and activities, in accordance with international best practices.;
- The firm is not providing consultancy services to the project or preparing its project financial statements (have done so in the previous two years);
- The Auditor is suitably qualified and a member of a professional body affiliated with the International Federation of Accountants (IFAC);
- The auditor can conduct the audit in line with auditing standards acceptable to IFAD as per 4.1.;
- The firm can assign an audit team to the audit which has the necessary competence and skills;
- The firm has a proven track record in conducting audits of a similar nature and complexity;

iii. Management letter

The *management letter* is an integral part of the audit package which documents accounting and internal control issues identified by auditors. The management letter should:

- Outline the auditor's recommendations to improve identified accounting and internal control issues;
- Include project management's responses to the identified control issues and their proposal to address the issues identified within a specific time period.

- Where applicable, follow up on the issues identified in the previous year's management letter.

iv. Reporting

The Auditor is required to deliver an audit package which includes:

- The audited financial statements, including additional disclosures as outlined in 3.2;
- An audit opinion on the financial statements, considering the scope as outlined in 5.;
- Report on factual findings, considering the scope of agreed upon procedures as outlined in 6. Ineligible expenditure identified should be clearly mentioned.
- A management letter, including information as outlined in 4.3;

The audit report should sufficiently detail the nature and extent of the procedures performed by the auditor.

The Auditor is required to:

- Provide the audit package by no later than 30th November 2019 respectively.
- Provide the audit package in English.
- Deliver the audit packages in 2 separate files¹:
 - File 1: audited financial statements including the auditors' report
 - File 2: management letter

5. Scope of the financial audit

In performing the audit, the auditor shall, at a minimum:

- Obtain an understanding of the internal controls related to the financial reporting process, to identify and assess any weakness in internal control that might result in misstatements whether due to fraud or error;
- Design and conduct audit procedures in response to weaknesses identified in the internal controls relating to the financial reporting process, to obtain audit evidence that the financial statements are fairly presented and free from material misstatements in accordance with the applicable accounting framework;
- Verify whether expenditure incurred in the name of the project is in line with the terms of the financing agreement(s) (Annex 1) and incurred for the purposes intended in this agreement. Consider both IFAD and 3rd party funding;
- Verify that inventory and fixed assets held by the entity exists, are complete, and are properly accounted and used for the project purposes;
- Note any control weaknesses in the internal control environment and in the financial reporting process and communicate those in the management letter.

6. Scope of the agreed upon procedures

The auditor is required to perform the following specific procedures and report on factual findings as required in 4.4.

i. Withdrawal application summary

¹ This requirement will assist IFAD in meeting its disclosure requirements as outlined in Section 7. Public Disclosure. The management letter is not subject to disclosure and should be provided in a separate file.

The Auditor is requested to obtain the individual withdrawal applications submitted to IFAD as summarised in the withdrawal application summary and develop testing procedures to:

- Determine whether the designated account currency equivalent was determined using the historical exchange rate of transfers to the operating account;
- Determine whether goods and services have been purchased through the SOE mechanism in line with the SOE threshold stipulated;
- Determine whether the expenditures claimed through SOE procedures were properly appropriately authorized, classified² and supported by audit documentation;
- Identify any ineligible expenditure;

ii. Designated account statement and reconciliation

The Auditor is requested to review the activities of the designated account(s) associated with the project, including the initial advance, replenishments, interest that may accrue on the outstanding balances, and the year-end balances. The Auditor is requested develop testing procedures to:

- Check the accuracy of the designated account reconciliation(s)
- Confirm that the designated account(s) have been maintained in accordance with the provisions of the financing agreement;

iii. Certified Statement of expenditure

The Auditor is requested to obtain the certified statement of expenditure submitted to IFAD and develop testing procedures to:

- Determine if expenditures incurred is related to the Project Description as per Grant Agreement;
- Determine whether goods and services have been purchased through the SOE mechanism in line with the SOE threshold stipulated;
- Determine whether the expenditures claimed through SOE procedures were properly appropriately authorized, classified³ and supported by audit documentation;
- Identify any ineligible expenditure;

iv. Expenditure transaction list

The Auditor is requested to obtain the expenditure transaction list submitted to IFAD and develop testing procedures to:

- Determine if expenditure incurred is related to the Project Description as per Grant Agreement;

v. Other

- Confirm the degree of compliance with the recipient's procurement policy and identify noncompliance (this can also be done as a compliance audit)

² The threshold for SOE transactions will be stipulated in the letter to the borrower.

³ The threshold for SOE transactions will be stipulated in the letter to the borrower.

7. Public disclosure

IFAD promotes public disclosure of project financial information to enhance the level of transparency and accountability. IFAD will publish project audit reports, as appropriate, in line with the Fund's disclosure policy. Management Letters issued by auditors are not subject to public disclosure by IFAD. In agreeing to the terms of reference, the auditor explicitly acknowledges IFAD's right to publicly disclose audit reports (audited financial statements and audit opinion) and will issue reports without a limitation of use clause.

8. Annexures

Annex1: Grant Agreement

Annex2: Letter to the Borrower

Annex3: IFAD Handbook on Financial Reporting and Auditing for IFAD-Funded Projects

EVALUATION CRITERIA

Proposals of successful firms will be evaluated on the following criterion based on Quality Based Selection method;

Primary criteria		Points
1	Relevant experience & qualification of key staff	60
2	Relevant experience of firm	30
3	Price	10
Total		100