

**Terms of Reference (TOR) for engagement of the Auditor and for the
Financial Audit and factual findings of DCA /
Community Livestock And Agriculture Project (CLAP)**

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A. Background of the Project

1. Dutch Committee for Afghanistan- Veterinary Programmes (**DCA-VET**) has entered into an contract with Ministry of Agriculture, Irrigation and Livestock (**MAIL**), concerning the provision of technical assistance and implementation services in respect of the Sub-component 2.4 Livestock development among the Kuchi Project of **Community Livestock and Agriculture Project (CLAP)** (hereinafter referred to as “Project”) funded by International Fund for Agricultural Development (**IFAD**). The project started on 26th January 2014 for a period of six years. The contract is being modified in order to implement the recommendations of the Mid Term Review and IFAD/MAIL/CLAP Additional financing², and the duration of the contract is extended from 26-Jan-2020 to 31-Dec-2022.
2. **The project goal** is to contribute to reduce poverty in rural Afghanistan.
3. **The project objective** is to improve food security of rural households in selected districts in the provinces of Kabul, Parwan, Logar, Nangarhar, Balkh, Baghlan and Herat by increasing agriculture and livestock productivity. This will be achieved by enhancing productive assets, skills, services, technologies, and income opportunities of the targeted beneficiaries (i.e. by introducing appropriate livestock and agriculture technology options, strengthening local capacity, and strengthening some weak areas of value-chain, including linkages with markets). The project also aims at reducing gender disparities by increasing the social and economic status of women engaged in these activities.
4. **Project Components:** the proposed project is organized around three mutually reinforcing components: (1) Community Development, including Productive Infrastructure and Institutional Strengthening; (2) Livestock and Agriculture Development; and (3) Project Management, Policy Support and Young Professional Program.
5. **Project coverage** – The project covers selected districts in the provinces of Kabul, Parwan, Logar, Nangarhar, Balkh, Baghlan and Herat, aiming at improving food security of rural households.
6. **Project Implementation** – The Lead Project Agency is directly responsible for implementation of activities related to irrigation and agriculture schemes under subcomponent 1.1 (Productive Infrastructure) of the Community Development, including Productive Infrastructures and Institutional Strengthening Component. It also coordinates implementation of other Project activities, implemented by Service Providers. The Project Support Team (PST), headed by a National Project Director is responsible for overall implementation coordination and technical support for Project cross-cutting issues, for policy advocacy, liaison with other development

Programmes, as well as for day-to-day management of the Project, including the preparation of annual work plans and budgets (AWPBs), and consolidation of financial statements and progress reports.

7. **Project Implementation Guidelines** – The project is being implemented in accordance with IFAD/MAIL guidelines, which includes contract, Financial Reporting & Auditing.

B. Financial Audit and Factual Findings

1. Background

- i. A contract has been signed between Ministry of Agriculture, Irrigation and Livestock (MAIL) and the recipient (DCA) on 26 January 2014. The contract has been modified and extended from 26 January 2020 to 31 December 2022 for the provision of an additional fund to the recipient.
- ii. MAIL requires the 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 in accordance with the International Standard on Auditing (ISA).
- iii. The reporting entity is Dutch Committee for Afghanistan (DCA)/the Community Livestock and Agriculture Project (CLAP) existing and additional financing.
- iv. The entity prepares its statement of income and expenditures in accordance with its own policy accrual basis. (IPSAS)
- v. The auditor conducts its audit in accordance with the International Standards on Auditing (ISA).

2. Objective

- The objective of the audit is to enable the auditor to express an opinion on whether the financial statements of the Project for the period 01 January 2019 to 31 December 2019 presents fairly, in all material respects, statement of expenditures (SoE) incurred on the project; and whether these expenditures were incurred:
 - (i) in conformity with the approved Project budget;
 - (ii) for the approved purposes of the Project;
 - (iii) in compliance with the relevant policies and procedures of DCA-VET;
 - (iv) in accordance with covenants of the donor grant agreement; and
 - (v) Supported by properly approved vouchers and other supporting documents.
- Express an opinion on whether the Projects' statement of assets (Non-expendable items) as at 31 December 2019 presents fairly, in all material respects, the balance of Non-expendable items of the Project.
- Express an opinion on whether the Projects' Bank balance as at 31 December 2019 presents fairly, in all material respects, the bank balance of the Project.

- Provide an overall assessment of the operational and internal control systems that are in place for the management of the Project so that related transactions are processed in accordance with DCA-VET policies and procedures and for the achievement of the Project objectives.

Express an opinion on use of IFAD Funds: The auditor is also required to audit the utilization of funds provided by IFAD and provide an opinion on whether the funds have been exclusively used to finance eligible expenditure and not used to finance, even temporarily, other activities of DCA.

3. Responsibilities of the recipient

i. General:

- Provide the auditor with access to all legal documents and 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;
- Provide financial statements for the activities financed by IFAD funds that are reconcilable to its records and accounts.
- Ensure that the accounting policies are consistently applied and disclosed in the notes to the financial statements.
- Ensure that appropriate internal controls are implemented to prevent misstatement and susceptibility to fraud;
- Ensure compliance with all relevant laws and regulations that pertain to the entity, as well as with the contract between the recipient and MAIL;
- Provide the Statement of Income and Expenditures to the auditor within a reasonable time and be available for any queries that the auditor may have.

ii. Financial statements

The recipient shall prepare Statement of Income and Expenditures covering the reporting period 01 January 2019 to 31 December 2019, in accordance with– Accrual Basis (IPSAS) . In addition, the following specific disclosures will be included in the financial statements:

- Statement of Income and Expenditures; Budget Variance Analysis;
- Notes

4. Responsibilities of the auditor

i. Auditing Standards

The auditor is responsible for the formulation of an opinion on the financial statements in accordance with International Standards on Auditing.

ii. General principles

By agreeing to 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 (nor has it 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.
- The auditor is able to conduct the audit in line with auditing standards acceptable to IFAD/MAIL.
- The firm can assign an audit team to the audit that 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 that documents accounting and internal control issues identified by the auditors. The Management Letter should:

- Outline the auditor's recommendations to improve the identified accounting and internal control issues;
- Include the responses of project management to the identified control issues, and its proposal to address the issues identified within a specific time period;
- Follow up on the issues identified in the previous year's management letter.

iv. Reporting

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

- The audited statement of income and expenditures;
- An audit opinion on the statement of income and expenditures;
- A management letter.

The audit report should provide sufficient detail as to the nature and extent of the procedures performed by the auditor. The auditor is required to provide the audit package to DCA no later than 20 March 2020. Reports are to be delivered in English.

5. Scope of the financial audit

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

- 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 to error;
- Design and conduct audit procedures in response to any weaknesses identified in the internal controls relating to the financial reporting process, to obtain audit evidence that the statement of income and expenditures is fairly presented and free from material misstatements, in accordance with the applicable accounting framework;
- Verify whether expenditure that was incurred in the name of the Project is in line with the terms of the contract and incurred for the purposes intended in this contract.
- Verify that the inventory and fixed assets held by the entity exist, are complete, are properly accounted and are used for the project purposes;
- Note any 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:

I. Certified statement of expenditure:

The auditor is requested to obtain the certified Statement of Expenditure as submitted to IFAD, and develop test procedures to:

- Determine if expenditures incurred are related to the project description in according with the grant agreement/Contract;
- Determine whether goods and services have been purchased through the SOE mechanism in line with the stipulated SOE threshold;
- Determine whether the expenditures claimed through SOE procedures were properly and appropriately authorized, classified and supported by audit documentation;
- Identify any ineligible expenditure;

7. Transparency and public disclosure

In line with the standards of the International Aid Transparency Initiative, recipients are encouraged to publish relevant financial information on their own websites, for increased accountability. The recipient and MAIL own the right to publish the audit report, with no limitation-of-use clause. MAIL will publicly disclose project financial statements and audit reports relating to investment projects, subject to processes applicable to their publication and in line with the Fund's disclosure policy. Management Letters issued by auditors are not subject to public disclosure by MAIL. In agreeing to the terms of reference, the auditor explicitly acknowledges MAIL's right to publicly disclose audit reports (audited Statement of Income and Expenditures and audit opinion) and will issue reports without a limitation of use clause.

To facilitate the public disclosure process, the auditor is requested to submit three separate files as follows:

- Audited statement of income and expenditures and audit opinion; and
- Management Letter.

8. Scope of work

Scope of work of Auditor: The audit will cover all the project activities and will not be limited to project financial transactions. The responsibilities include reporting on the adequacy of internal controls, the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the level of compliance with DCA guidelines and policies on Procurement Management, Human Resources Management, Administrative Procedures, and Management of district offices.

9. Eligibility Criteria for shortlisting of Service Provider Audit Firms

Service Provider:

- must be a registered Chartered Accountant Firm having a minimum 5 years' experience in audit
- Should not have been blacklisted by Central/State Govt./Govt. agencies and provide a self-declaration by the Firm's authorized representative.
- The auditor must be independent of the project, its staff and activities, in accordance with international best practices. In addition, the project auditor may not provide consultancy services to the project or prepare the project financial statements, or have done so in the previous two years.
- The auditor's work must conform to auditing standards acceptable to IFAD/MAIL.
- The audit firm must be able to assign an audit team to the audit possessing the necessary competence and skills.
- The audit firm must have a proven track record in conducting audits of a similar nature and complexity.

10. Selection criteria for the Service Provider

- a) The selection of the Service Provider for DCA/CLAP Project Audit shall be made on the basis of Cost Based Selection method (lowest price). Interested Service Provider will be required to submit a Simplified Technical Proposal and a Financial Proposal as per Instruction to the Service Provider contained in the Request for Proposal.
- b) The simplified Technical Proposal shall contain the following information:

- Details or profile of the Service Provider, internal structure and CVs of key staff in the organisation
- Experience of key staff for the project audit
- Material evidences, namely, Reference letters or contract, in respect of previous experience of similar works
- Any other documents which may support the Proposal
- Description of the audit plan proposed to carry out for the project audit

11. . List of Annexure to ToR:

- Appendix 1: Information about the DCA project;
- Financial Policy
- HR Policy
- Procurement Policy
- Copy of signed Contract (which signed between MAIL and DCA)
- Any other related and requested documents and information via Auditor.