

## TERMS OF REFERENCE (ToR)

### FOR THE AUDIT OF THE ANNUAL PROJECT FINANCIAL STATEMENTS (APFS) OF THE PROJECT 4 (Loan 3238-GEO) UNDER URBAN SERVICES IMPROVEMENT INVESTMENT PROGRAM FOR THE YEARS ENDING ON 31 DECEMBER 2015 (FY2015) UNTIL 31 DECEMBER 2018 (FY2018)<sup>1</sup>

#### I. Background

1. The management of the United Water Supply Company of Georgia LLC (UWSCG) requires an auditor to carry out an audit of the Annual Project Financial Statements (APFS) for the loan listed below under Urban Services Improvement Investment program (USIIP):

- Project 4: Loan 3238-GEO- Loan Agreement dated on 5 February 2015.

2. The auditor will initially provide to UWSCG the Audit Opinion on the Annual Project Financial Statements (APFS) and Management Letter (with copies to ADB) for the financial year (FY) ending on December 31, 2015 (FY2015) for the above loan, and for subsequent FYs from FY2016 to FY2018, subject to extension of the contract annually by UWSCG based on the satisfactory performance of the auditors for auditing of the APFS for the previous FY.

#### II. Objectives

3. The objective of the APFS is to enable the auditor to express an opinion on the financial position of the Project listed above for the five financial years ending on 31 December (FY2015 to FY2018), and on the funds received and expenditures for the year then ended.

4. The prospective auditors are required to submit a proposal and a work plan to provide the audit services by addressing among other things:

- the extent (if any) that the auditor would not conform to the agreed auditing standards and indicate any alternative standards, if any;
- whether the audit would be conducted as a completed audit (i.e., will the auditors carry out their audit after financial yearend, 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);
- specific actions required on the part of UWSCG (e.g., access to computer systems and records, disclosures);

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<sup>1</sup> The audit of APFS for the subsequent FY would be carried out by the auditor subject to communication from UWSCG for extension of the Contract based on the satisfactory performance of the auditors for auditing of APFS for the previous FY.

- discussions before signing the opinion and report on any matters arising from the audit, and with whom these discussions would be held; and
- The timetable for provision of opinions and reports.

### III. Scope of Services (for each FY)<sup>2</sup>

5. **Auditing Standards and Program.** The audit will be carried out in accordance with the International Standards of Auditing (ISA) as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC), with special reference to ISA 800 (Auditor's Report on Special Purpose Audit Engagements) and to relevant Asian Development Bank (ADB) guidelines. In conducting the Projects audit, special attention should be paid to the following:

- All funds provided by the Asian Development Bank (ADB) and its co-financiers have been used in accordance with the conditions of the Financing Agreement of Loan 3238-GE0 dated 5 February 2015, with due attention to economy and efficiency, and only for the purposes for which the loan was granted;
- Counterpart funds have been provided and used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
- Goods and services financed have been procured in accordance with the relevant financing agreement;
- All necessary supporting documents, records, and accounts have been kept in respect of Project ventures;
- The PFS have been prepared in accordance with generally accepted accounting principles and practices and relevant ADB guidelines, and give a true and fair view of the financial position of the Project 4 as of 31 December of each FY, and of resources and expenditures for the year ended;
- Review the compliance with covenants in the financing agreement and with ADB's specific requirements with respect to the financial management of the Projects in Article IV of the Loan Agreement;
- Provide a statement on the scale, effectiveness and reliability of the accounting and administrative procedures of the borrower;
- Provide a report on the efficiency and economy on the use of resources;
- Provide comments on the accounting principles adopted by the entity under audit (if other accounting principles were adopted, provide comments on the impact of the financial statements arising from deviations from international accounting standards);
- Verify financial and administrative internal control systems; and
- Define areas of improvement in the PMO's systems (e.g., improvements in accounting and data processing operations).

6. 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.

7. **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

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<sup>2</sup> The scope of services and inputs by various experts as mentioned in Section III and IV of the ToR shall remain same for each, FY2015, FY2016, FY2017 and FY2018.

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.

8. **Project Financial Statements.** The Projects Financial Statements should be prepared in accordance with the cash-based International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC). In addition to the Cash Receipts and Disbursement Statement, Project Financial Statements shall include statement of Sources and Uses of Funds for the current fiscal year and accumulated to date, showing comparison of budget and actual funds received from ADB and counterpart funds separately and use of funds by main categories of expenditures.

9. The auditor should pay particular attention as to whether:

- expenditures have been made wholly and necessarily for the realization of Project objectives;
- information and explanation necessary for the purpose of the audit have been obtained;
- Supporting records and documents necessary for purpose of the audit have been retained.

10. **Management Letter.** On conclusion of the audit, the auditor will prepare a Management Letter for the audited Project, detailing:

- a) Any material weaknesses in the accounting and internal control systems that were identified during the audit;
- b) Recommendations to rectify identified weaknesses;
- c) The status of significant matters raised in previous management letters;
- d) 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;
- e) The degree of compliance with each of the financial covenants in the loan agreement and recommendations for improvement;
- f) Matters that have come to the auditor's attention during the course of the audit which have a significant impact on project implementation;
- g) Any other matters that the auditor considers should be brought to the attention of the Project's management; and
- h) Significant matters that the auditor considers should be brought to ADB's attention.

11. **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 on compliance by comparing required and actual performance measurements for each financial covenant for the financial year concerned. Below are given financial covenants for the loan agreement for Project 3. The auditor shall verify the degree of compliance with each of the financial covenants.

- a) Withdrawals from the Loan Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with Works, Goods, and Consulting Services, subject to a maximum amount equivalent to 20% of the Loan amount;

- b) Notwithstanding any other provision of this Loan Agreement, no withdrawal shall be made from the Loan Account until the Subsidiary Loan Agreement, in form and substance satisfactory to ADB, has been duly authorized and executed and delivered on behalf of, the Borrower, MRDI and UWSCG, and is legally binding upon the parties thereto in accordance with its terms.

12. **Compliance with Financial Assurances.** The auditor will confirm compliance with all financial assurances contained in the Project legal documents. Where present, the auditor should indicate the extent of any noncompliance by comparing required and actual performance of the borrower in respect of these ADB requirements for the financial year concerned.

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

- All external funds have been used in accordance with the relevant financing agreements covering the Project, with due attention to economy and efficiency, and only for the purpose for which the financing was provided;
- Counterpart funds have been provided and used in accordance with the relevant financing arrangements and only for the purpose for which the financing was provided; and
- Goods and services financed have been procured in accordance with the relevant financing agreements.

14. **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; (iii) physical observation, including inspecting or counting tangible assets, such as materials, inventory, land buildings, property or equipment; (iv) confirmation, including directly confirming balances or transactions with external third parties, such as cash balances, accounts receivable or accounts payable; (v) sampling, including vouching or examining supporting documentation to determine if balances are properly stated; and (vi) tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

15. **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; (iii) reconciliations with internal and external evidence are performed on a timely basis by the appropriate level of management; (iv) balances can be confirmed with external parties; (v) adequate documentation and an audit trail is retained to support transactions; (vi) transactions are allowable under the agreements governing the Project; (vii) errors and omissions are detected and corrected by project personnel in the normal course of their duties, and management is informed of recurring problems or weaknesses; (viii) management does not override the normal procedures and the internal control structure; and (ix) assets are properly accounted for, safeguarded and can be physically inspected.

#### **IV. Experts and Inputs**

16. The auditor must be authorized to practice in Georgia 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 to the entity whose audit they are to undertake. Audit firm and proposed staff should be from the Member Country of the ADB.

17. 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. Indicative tasks for the auditors are given in Attachment 1.

18. The auditor shall not alter any conditions of Contract and substitute key experts proposed and agreed during Contract negotiation.

#### **V. Duration of Contract**

19. The duration of the assignment to conduct financial audit of Project 4 under USIIP would be initially up to December 31, 2016, with possibility of an extension on year on year basis until 31 December 2018 through a written confirmation by UWSCG.

20. The Contract extension would be with mutual consent and subject to satisfactory performance of audit service for the previous FY and prior approval of ADB. Additional Notice to Proceed will be issued to the auditors to notify commencement of the audit for subsequent FY (from FY2016 to FY2018).

#### **VI. Deliverables**

21. The schedule for deliverables for auditing of each FY will be as under:

<b>Deliverables</b>	<b>Submission Date</b>
Draft Audit Report	Within 6 weeks from the date of issue of NTP for respective FY
Final Audit Report and Management Letter	1 week after receiving comments from the UWSCG for respective FY

22. The financial statements and auditor's opinion thereon shall be submitted in both Georgian and English. The auditor shall present 6 hard copies of each report in Georgian, 6 hard copies of each report in English and the electronic versions of each in Ms Word and PDF formats, as well as in excel (for the Tables).

23. It is highly desirable that the auditor become familiar with the relevant ADB guidelines, which explain the ADB's financing reporting and auditing requirements. Please refer to *Handbook for Borrowers on the Financial Management and Analysis of Projects* which can be accessed from the following website:

[http://www.adb.org/Documents/Handbooks/Borrowers\\_Fin\\_Gov\\_Mgt\\_Investment/default.asp](http://www.adb.org/Documents/Handbooks/Borrowers_Fin_Gov_Mgt_Investment/default.asp)

24. The auditor should understand that working papers under ADB Projects can be subject to the review by authorized ADB staff.

**VII. Budget and Payment Terms**

25. The estimated budget (excluding indirect Taxes) for conducting audits of Project 4 for various FY shall be as under, and the auditors are requested to quote the fees for each FY separately while submitting their proposal:

FY2015: \$ 5 500.00  
 FY2016: \$ 11 000.00  
 FY2017: \$ 47 500.00  
 FY2018: \$ 61 500.00

Total: \$125 500.00

26. UWSCG will sign a lump sum payment contract and the payment will be linked to the deliverables of the respective financial year audits, according to following schedule:

<b>Deliverables</b>	<b>Payment Schedule</b>
Draft Audit Report (including Company and Project audit) for each FY	80% of the total Contract Price for the respective FY upon submission of Draft Report, acceptable to the UWSCG for each FY
Final Audit Report and Management Letter for each FY	20% of the total Contract Price for the respective FY upon submission of the Final Report and Management Letter, acceptable to UWSCG/ADB.

**VII. Support from UWSCG**

27. UWSCG will provide suitable office space for carrying out the services, and all the available required project documentation related to assignment.

28. The responsibility for the preparation of financial statements including adequate disclosure is that of the management of Project Management Office (PMO). This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the company. As part of the audit process, the auditor may request from management written confirmation concerning representation made to the auditor in connection with the audit.

29. The Projects' accounts (books of account) provide the basis for the preparation of the APFS and are established to reflect the financial transactions in respect of the Project as maintained by the PMO. 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. Confirmation should also be obtained of amounts disbursed and outstanding at ADB.

30. 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.

## Attachment 1

### Position Based Terms of Reference (applicable for each FY)

Position Title	Key Experts (National)	Expected Inputs (months)	Preferred Qualification	Tasks and Responsibilities
Chief Auditor	National	0.5	<ul style="list-style-type: none"> <li>• Degree in finance / economics or related fields;</li> <li>• working experience in the country/region;</li> <li>• preferable 5 years of working experience in audit company on a leading positions.</li> </ul>	<ul style="list-style-type: none"> <li>• Responsible for the conduction of the Audit</li> <li>• Overall Management;</li> <li>• Issuance of the Audit Opinion</li> </ul>
Audit Manager	National	0.5	<ul style="list-style-type: none"> <li>• Degree in finance / economics or related fields;</li> <li>• preferable 5 years of working experience in audit company on a leading positions, implementing similar assignment.</li> </ul>	<ul style="list-style-type: none"> <li>• General Management of the assignment</li> <li>• Audit Planning</li> <li>• Leading an audit team</li> <li>• Implementation of Pre-Audit Procedures</li> <li>• Approving the Audit Programs</li> <li>• Reviewing the System of Internal Controls</li> <li>• Reviewing Draft Audit Reports (Company and Project) and Draft Management Letters</li> <li>• Reviewing Final Audit Reports (Company and Project) and Final Management Letters</li> </ul>
Senior Auditor	National	1.0	<ul style="list-style-type: none"> <li>• Degree in finance / economics or related fields;</li> <li>• preferably 5 years of working experience as an auditor in the audit company having relevant working experience with donor funded projects and large enterprises/organizations as entity;</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of Pre-Audit Procedures.</li> <li>• Statistical sampling.</li> <li>• Reviewing the System of Internal Control.</li> <li>• Auditing financial statements in accordance with ISA and the ADB's Guidelines.</li> <li>• Reviewing the compliance with accounting principles.</li> <li>• Preparation of auditor's report and management letter</li> <li>• Reviewing the compliance of the Company in terms of tax obligations;</li> <li>• Reviewing Tax Declaration submission and its respective payments;</li> </ul>
Auditor	National	1.0	<ul style="list-style-type: none"> <li>• Degree in finance / economics or related fields;</li> <li>• preferably 3 years of working experience in an audit company as an auditor having relevant experience of auditing donor funded projects and various organizations;</li> </ul>	<ul style="list-style-type: none"> <li>• Audit of Project financial statements</li> <li>• Summarizing audit works</li> <li>• Preparation of auditor's report and management letter</li> </ul>