

Loan 3449-ARM: Armenia-Georgia Border Regional Road (M6 Vanadzor-Bagrashen) Improvement Project

Auditor Terms of Reference

1. Background

This Terms of Reference is in accordance with the provisions of the Loan 3449-ARM Agreement (Loan Agreement) between the Republic of Armenia (RA) and the Asian Development Bank (ADB) dated 09 November 2016.

ADB has agreed to provide the Government of Armenia with a EUR44,037,000 financing facility (FF) to help finance the Armenia-Georgia Border Regional Road (M6 Vanadzor-Bagrashen) Improvement Project (the Project), rehabilitation of M6 (K38+450—K91+000). This component will finance the improvement (rehabilitation and reconstruction) of about 51.5 km 2-lane highway with Category III-b standards. The rehabilitation will include improvement of wearing course, base course, drainage, and safety facilities. The width of carriageway will be standard 7.2 m (6.6 m in heavy mountainous sections) and varied width of shoulder of 0.5-1.5 m. Minor realignment in few sections will be necessary to improve the geometric alignment and sight distance. The construction will last around 30 months. The Project is implemented by the “Transport Projects Implementation Organization” State Non -Commercial Organization (SNCO hereinafter – the Project Management Unit [PMU]). The Investment Project will benefit road users, road construction companies, traders, and others who derive income from the development of transport, logistics and trade along the road corridor. The direct benefits include (i) lower road transport and maintenance costs, (ii) faster and more reliable road transport services, (iii) reduced traffic accidents, (iv) improved access to markets and social services, and (v) jobs and income created during implementation (i.e., use of local labor and construction materials) and after completion (i.e., roadside business activities).

The Government of RA will counter-finance Armenia-Georgia Border Regional Road (M6 Vanadzor-Bagrashen) Improvement Project (Loan 3449-ARM) in respect of taxes arising from the implementation of the projects.

The Executing Agency is the Ministry of Transport, Communication and Information Technologies (MTCIT) which is responsible for planning the overall Investment Project implementation and coordination with the Project Governing Council (PGC). MTCIT will sign and act as an Employer for contracts with consultants and contractors. PMU is responsible for day-to-day coordination and implementation of the project, implementation, and administration of the individual projects under the Investment Project, including: (i) maintenance of financial statements, (iii) support for the procurement of equipment and materials, (iv) monitoring and reporting of individual project implementation, (v) facilitation of environmental and social safeguard measures, (vi) support for the selection of consultants, and (vii) oversight of the detailed design and construction supervision. PMU has appointed a project implementation team comprising expertise in highway engineering, procurement, project management, financial accounting, and social and environmental safeguards.

2. Objective of the Assignment

The objective of the Annual Project Financial Statements (APFS) audit is to enable the auditor to express a professional opinion on the financial position of the project implementation for the fiscal

years ended on 31 December 2017, 31 December 2018, 31 December 2019, 31 December 2020 and five-months period ending 31 May 2021 on the funds received and expenditures made within audit years.

3. Scope of Services, Tasks and Expected Deliverables

3.1 The auditor should review the compliance on each of the financial covenants in the Article IV of the Loan 3449-ARM Agreement (Ordinary Operations).

3.2 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 both ADB and RA parts, and related systems, obligations under contracts and deliverables (and / or contract implementation), revision of adequacy of appropriate cash flows. PMU and MTCIT will provide to the auditor all information necessary to support the auditor's opinion and to construct the final audit report.

3.3 The auditor should get acquainted with the project, the functions of the Executing Agency (MTCIT) and Implementing Agency (Transport Projects Implementation Organization SNCO – the PMU); the contents of the report and recommendation of the President, periodic financing request report and legal agreements; and the ADB's guidelines, i.e. Financial Management and Analysis of Project, 2006, Loan Disbursement Handbook, Procurement Handbook and other guidelines available at ADB and act in accordance with the requirements described in guidelines.

3.4 Auditing Standards and Program. The audit will be carried out in accordance with the International Standards on Auditing (see Terms and Definitions). 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.

3.5 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 (see Terms and Definitions). 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.

3.6 Advance account: The Advance Account reflects (i) deposits and replenishment received from ADB; (ii) payments; and (iii) the remaining balance at financial year-end. The auditor will examine whether the Advance Account has been maintained in accordance with the provisions of the relevant financing agreements. The auditor must form an opinion on whether the Advance Account was used in compliance with required ADB procedures and the accuracy of the presentation of Advance Account activity and the year-end balance. The auditor should examine the eligibility and correctness of financial transactions during the period under review, account balances at the end of the period, the operation and use of the Advance Account in accordance with the financing agreement, and the adequacy of internal controls for this particular disbursement mechanism.

3.7 Statements of Expenditures (SOE). On the SOE procedure, the auditor will audit SOEs used as the basis for the submission of withdrawal applications to ADB. These expenditures should be compared for project eligibility with the relevant financing agreements (and with reference to the 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 loan disbursement. Annexed to the APFS should be a schedule listing individual SOE withdrawal applications by specific reference number and amount.

3.8 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 (where applicable [refer to loan agreement]).

3.9 Contract management. The auditor will get acquainted with all contracts signed by the Implementing Agency (Transport Projects Implementation Organization SNCO (PMU) and will review incorporate in the audit report the opinion for contract management procedures and grounding of appropriate payments to counter-agents.

3.10 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 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 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.

3.11 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.

3.12 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) reconciliation with internal and external evidence are performed on the 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 allowed 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 and weaknesses; (viii) management does not override the normal procedures and the internal control structure; and (ix) assets are property accounted for, safeguarded and can be physically inspected.

4. Team Composition & Qualification Requirements for the Key Experts

The auditor team shall include the following key experts:

Team Leader/Auditor (one person) (4 person/month) – The Auditor/Team Leader should have higher education in finance, accounting, economy, business administration or related, with professional experience of auditing with min ten years of relevant experience, with international and national appropriate standards knowledge base and experience, having confirmed experience in auditing of international projects financed by Asian Development Bank (preferable), World Bank or projects of other finance/donor organizations. The international certification in finance could be an asset.

Auditor Manager (one person) (4 person/month) – The Auditor Manager should have higher education in finance, accounting, economy with professional experience of auditing with min seven years of relevant experience, with international and national appropriate standards knowledge base and experience, having confirmed experience in auditing of international projects. The international certification in finance could be an asset.

Auditor (3 persons) (12 person/month) – The Auditor should have higher education in finance, accounting, economy, business administration or related, with professional experience of auditing with min 5 years of relevant experience, including support to the audit works of one international project can be considered. Particularly, it is required to involve at least one professional in international auditing standards and one professional in Armenian appropriate legislation. All proposed key experts shall be fluent in English and Armenian languages.

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 at least in the last five years. 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 and the client list of the auditor with contacts for last five years. 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

The submitted proposal and the work plan to provide the audit services described in this letter, 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).
- 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.

5. Reporting requirements and Time Schedule for Deliverables

The auditor will refer to the “Model Auditor Opinion for a Non-Revenue Earning Project (Appendix 10, *Handbook for Borrowers on the Financial Management and Analysis of Projects* available at <http://www.adb.org/documents/handbook-borrowers-financial-management-and-analysis-projects>) and provide the following opinions and reports to PMU (with copies to ADB) in accordance with the following timeframes:

Audit Opinion on the APFS (including separate opinion on the use of loan proceeds and on compliance with loan covenants) with Management Letter on the following [refer to Loan Agreement Section 4.05(a)]:

ADB Loan 3449-ARM: Armenia-Georgia Border Regional Road (M6 Vanadzor-Bagratashen) Improvement Project, for the fiscal year 2017, fiscal year 2018, fiscal year 2019, fiscal year 2020, and five-month period ending on 31 May 2021.

No.	Deliverable	Number of copies	Date of Submission
1	Draft report for FY2017	2 hard copies	within 20 calendar days after the commencement date
	Final report for FY 2017	3 copies	within 30 calendar days after the commencement date
2	Draft report for FY2018	2 hard copies	by 10 June 2019
	Final report for FY 2018	3 copies	by 30 June 2019
3	Draft report for FY2019	2 hard copies	by 10 June 2020
	Final report for FY 2019	3 copies	by 30 June 2020
4	Draft report for FY2020	2 hard copies	by 10 June 2021
	Final report for FY 2020	3 copies	by 30 June 2021
5	Draft report for the year ending on 31 May 2021	2 hard copies	by 01 December 2021
	Final report for the year ending on 31 May 2021	3 copies	by 15 December 2021

All reports should be submitted to PMU, MTCIT and ADB in the English and Armenian languages.

Description of Materials and Timing of Delivery

The annual financial statements and supporting documentation will be provided to the Auditor on the following estimated dates:

- For the year of 2017 within 5 working day after the notice to commence;
- For the year of 2018 by 05 May 2019;
- For the year of 2019 by 05 May 2020;
- For the year of 2020 by 05 May 2021;
- For the five-months period ending 31 May 2021 by 05 November 2021.

Management Letters

On conclusion of each annual 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, if applicable;
- 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 Loan 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.

Audited Project Financial Statements (APFS):

The APFS comprise:

- Statement of Accounting/Financial Policies
- Statement of Cash Flows/ Cash Receipts and Payments for the fiscal year ending XX-XXX-XX showing comparative (current and preceding years) and cumulative figures
- Statement of Uses of Funds by Project Activity
- Notes to the Financial Statements on relevant accounting policies and other explanatory notes

Other financial reports:

- Statement of loan withdrawals
- Statement of project resources
- Statement of Uses of Funds by Project Activity
- Compliance with the covenants in the Loan Agreement
- Report on Project's implementation progress
- Report on Project's disbursement progress

The actual withdrawn amounts will be submitted to Auditor on the following:

- For the year 2017 on the 5th working day after the notice to commence;
- For the year 2018 on 05 May 2019;
- For the year 2019 on 05 May 2020;
- For the year 2020 on 05 May 2021; and
- For the half year 2021 on 05 November 2021.

Total Actual Withdrawn Amount for the Year Ended xxxx

Category	Loan	Government	Total
Works and Consulting Services			
Incremental Administrative Costs			
Interest and Commitment Charges			
Total			

6. Client's Input and Counterpart Personnel

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 PMU, whose activities involve, or may be reflected in, the annual financial statements. PMU will have no objection to auditor's access to banks and depositories, consultants, contractors, and other persons or firms hired by the employer.

7. Client will provide the following inputs, project data and reports to facilitate preparation of the Proposals

All necessary information and data needed to facilitate preparation of the Proposal will be provided.

8. Public Disclosure

Following Article IV, Section 4.05(b) of the Loan 3449-ARM Agreement dated 09 November 2016, ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

9. Terms and Definitions

Agreed Project Accounting Policies

"Agreed project accounting policies" with regard to preparation of Annual Project Financial Statements, means the cash-based International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC).

Agreed Auditing Standards

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

Payment Terms

The Auditor should be paid for every annual audit separately, after submission of audit report and acceptance of it by PMU in accordance with the contract.

The PMU will pay the Auditor for the Services on the basis of claims submitted by the Auditor in accordance with the Payment Schedule specified in Contract provided that the quality of the outputs(s)/deliverable(s) to which the claim relates is satisfactory to the PMU. A payment does not constitute acceptance of the Services nor relieve the Consultant of any obligations.