

**NORTHERN MOUNTAIN INTEGRATED CHILD NUTRITION IMPROVEMENT
PROJECT**

GRANT NO: TF0A2244

DONOR: Japan Social Development Fund (JSDF)

ADMINISTRATOR FOR THIS FUND: The World Bank (WB)

TERMS OF REFERENCE

Package: AUDIT OF FINANCIAL STATEMENTS

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AUDIT OF FINANCIAL STATEMENTS OF NORTHERN MOUNTAIN INTEGRATED CHILD NUTRITION IMPROVEMENT PROJECT

A. BACKGROUND

The “Northern Mountain Integrated Child Nutrition Improvement” project aims to support the improvement of nutrition of women and children in the target ethnic groups in the northern mountain areas in Vietnam. Despite the steady and strong economic development resulting in overall achievement in poverty alleviation, persistent poverty in rural areas, particularly among ethnic minority groups, continues. While the overall poverty rate has declined, there is a notable difference between the rate of urban poverty at 6 percent and rural poverty at 27 percent. Furthermore, over 66 percent of the ethnic minority population is considered poor compared with 13 percent of the majoritarian Kinh group. In fact, 70 percent of those classified as being in the poorest category in 2010 belonged to ethnic minority groups. Therefore, in order to achieve inclusive and sustainable growth, special attention should be paid to these groups, which account for about 15 percent of the country’s total population.

The project’s main objective is to improve the nutrition status of children of age less than five in the target villages through improving the child feeding practices, maternal and child care, and to diversify sources of nutrition of pregnant women, infants and young children.

The Project has 4 components:

Component 1: Improving Food and Nutrition Security (FNS)

Component 2: Strengthening community-based nutrition care and practice.

Component 3: Support for Establishment of a policy platform at provincial level and Replication of the Integrated Rural Nutrition Care Approach.

Component 4: Project Management and Administration, Monitoring and Evaluation (M&E) and Knowledge Dissemination

Project sites: The project will target Yen Bai and Son La Provinces, where the ethnic minority groups are concentrated and where the existing other programs have not yet reached the remote villages. Within these provinces, the following districts have been selected jointly by the Department of Maternal and Child Health (DMCH) and the Save the Children International, Vietnam (SCiV) because of the high concentration of ethnic minority groups: (a) Yen Bai Province: Tram Tau, Mu Cang Chai Districts, and (b) Son La Province: Mai Son and Moc Chau Districts. 20 target communes in Yen Bai and Son La have been selected in consultation with the respective district’s people’s committee.

The total funding allocated to the project is US\$2,820,000 with the budget approved by WB in the grant agreement as follows:

<i>Project Cost</i>	Total USD
Goods, Consultants' Service, Training and Operating Costs	2 820 000

This TOR is to seek a consulting firm to do Project annual financial audit for period from 10th November 2016 to 31st July 2021.

B. OBJECTIVE OF THE ASSIGNMENT

The objective of the Audit is to enable the auditor:

1. to express an independent opinion on the project's financial statements for the year(s)/period(s) then ended, in accordance with the adopted accounting standards, and;
2. to express an opinion on the compliance with laws, regulations and funding agreements that have a direct and material financial effect on the project's financial report and;
3. to express an opinion on the effectiveness of internal control over compliance with requirements that could have a direct and material financial effect on the project's financial statements as well as internal control over financial reporting.

C. SCOPE OF THE SERVICE

The Project management is responsible for the preparation of the Project financial statements in accordance with accounting standards and policies acceptable to the Bank, which give a true and fair view of the Project's financial position as at year end and of the Project's income and expenditures for the year then ended. In preparing these financial statements, the Project management is required to:

- Select suitable accounting policies and then apply them consistently; and
- Make judgments and estimates that are reasonable and prudent.

The Project management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Project. The Project management is also responsible for safeguarding the assets of the Project and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The audit will be required to cover all activities of the project

The auditor's responsibility is to express an opinion on these financial statements based on the audit, which is planned and performed in order to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

The content of the financial statements are expected to include but are not limited to the followings:

1. A summary of all sources of funds, as well as expenditures against a classification system that is responsive to the program/project's objectives both for the current fiscal year and cumulative to date; JSDF fund and counterpart fund should be shown separately. This statement should be presented in USD
2. A statement of fund balances; This statement should be presented in USD
3. Supporting schedules to the financial statements which at least include:
 - a) A reconciliation of the amounts shown as "received by the project from the World Bank" with those shown as being disbursed by the Bank.
 - b) Statement of Expenditures listing individual SOE withdrawal applications by specific reference number and amount in each grant agreements.
 - c) Designated Account(s) statement showing movement and reconciliation with the bank statements;
4. The Accounting Policies adopted and Explanatory notes;
5. A Management Assertion that the Bank funds have been expended in accordance with the intended purposes;

D. APPLIED AUDITING STANDARDS

The audit will be carried out in accordance with International Standards of Auditing including:

1. Planning and conducting the audit in accordance with a risk based framework with a detailed audit work program which is sufficiently extensive in its coverage of the project's accounts to support the opinion given.
2. The auditor will gather evidence and prepare working papers to properly documents the evidence seen in support of the opinion given, sufficient audit evidence will be gathered to substantiate in all material respects the accuracy of the information contained in supporting schedules attached to the financial statements,
3. The auditor will review and evaluate the system of internal controls in effect, including internal audit procedures, to determine the degree of reliance that may be placed upon them and to determine the extent of testing of actual transactions needed to assure the auditor of the accuracy of the accounting records,
4. The audit coverage will consider the risk of material misstatement(s) as a result of fraud or error. The audit program should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected (see also note below).

The auditor should obtain an understanding of the design and operation of internal control over compliance with requirements that could have a direct and material financial effect on the funding agreements. The auditor's work in this area is in addition to the

consideration of internal control over financial reporting that is part of the financial statement audit. Specifically, the auditor must obtain an understanding of the internal control over compliance that is sufficient to plan the audit to support a low assessment level of control risk for donor program. The auditor needs to test the internal control unless the internal control is likely to be ineffective in preventing or detecting noncompliance (see also note below).

E. OTHER

In conducting the audit, audit scope should be expanded to ensure the following:

1. All external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant grant agreements are TF0A2244;
2. Goods and services financed have been procured in accordance with the relevant financing agreements;
3. The expenditures submitted to the Bank are eligible for financing and all necessary supporting documents, records, and accounts in support of Credit withdrawals have been adequately maintained with clear linkages between the books of account and reports presented to the Bank;
4. Funds disbursed through Statements of Expenditures (SOEs) were utilized for the purposed defined in the funding agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor;
5. The Designated Account(s) has been maintained and operated in accordance with the provisions of the relevant financing agreements.

F. COMPLIANCE WITH LAWS, REGULATIONS AND FUNDING AGREEMENTS

The auditor should be aware of the unique characteristics of the compliant auditing environment. Governments and not-for-profit organizations differ from commercial enterprises in that they may be subject to diverse compliance requirements. Management is responsible for ensuring compliance with relevant laws, regulation and funding agreements. That responsibility encompasses the identification of applicable laws, regulations and funding agreements and the establishment of internal control designed to provide reasonable assurance that the auditor complies with those laws, regulations and funding agreements.

In addition to the opinion on the financial statements, the auditor should provide an opinion on whether the auditor complies with laws, regulations and provision of contracts or funding agreements that have a direct and material financial effect on the

entity's financial statements. Where applicable, the auditor should prepare a report with separate schedule of findings and questioned costs. The scope of the audit should also refer to compliance with the Procurement procedures as set out in the funding agreements.

G. RESPONSIBILITY TO CONSIDER FRAUD IN AN AUDIT

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and with management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. It is the responsibility of those charged with governance of the entity to ensure, through oversight of management, that the entity establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws, regulations and funding agreements. In addition management is responsible for establishing a control environment and maintain policies and procedures to assist in achieving the objectives of ensuring the orderly and efficient conduct of the entity's business. Therefore, in order to ensure that those assertions are addressed in the audit of the entity, it is important that ISA 240 "The Auditor's Responsibility to consider Fraud in an Audit of Financial Statements" be followed. Auditors who are required to follow the International Standards will follow ISA 240.

In addition to the opinion on the financial statements and opinion on compliance, the auditor should provide an additional opinion on the effectiveness of internal control over compliance requirements that could have a direct and material financial effect on the financial statements as well as financial reporting.

H. AUDIT REPORTS

The Audit reports on the Project's Financial Statements should include the followings:

- A title identifying the person or persons to whom the report is addressed;
- An introductory paragraph identifying the financial statements audited;
- An introductory paragraph identifying the financial statements audited;
- Separate sections, appropriately headed dealing with;
 - Respective responsibilities of directors (or equivalent persons);
 - The basis of the Auditor's opinion;
 - The Auditor's opinion on the Financial Statements, SOE and Designated Account(s).

- The manuscript or printed signature of the Auditor; and
The date of the Auditor's report

The audit report is required to include audit opinion on the financial statements of the Project as to the degree of funds being utilized for the purposes defined by the financing agreement(s), the accuracy and propriety of expenditures withdrawn under SOE procedures, and the Designated Account(s).

This would include at least the following:

1. the audit report will state the purpose of the report and its intended use,
2. the audit report will state which/whose generally accepted accounting standards have been applied and indicate the effect of any deviations from those standards,
3. the audit report will state that the audit was conducted in accordance with ISAs
4. the audit opinion will cover the current period,
5. the audit opinion will state whether or not the financial statements presents fairly in accordance with International Public Sector Accounting Standards for the project and that the funds were utilized for the purposes defined by the funding agreement.
6. the audit opinion will cover in all material respects the supporting schedules, including those noted above.
7. the auditor should provide an opinion on whether the auditee complied with applicable laws, regulations and the Procurement procedures and other provisions of the funding agreements that have a direct and material financial effect on the entity's financial report.
8. the auditor should provide an opinion on the effectiveness of internal control over compliance with requirements that could have a direct and material financial effect on the financial statements as well as internal control over financial reporting.

I. MANAGEMENT LETTER

When significant weaknesses come to attention of the auditor during the course of audit that is not reflected in the audit opinion, they should be reported in a management letter addressed the following:

1. A description of specific internal control weaknesses noted in the financial management and recommendations to resolve/eliminate the internal control weaknesses;
2. Inappropriate accounting policies and practices and effectiveness of the accounting records system in providing useful and timely information for proper management of the program/and project;

3. Issues regarding general compliance with broad covenants on each financing agreement and give comments, if any, on internal and external matters affecting such compliance;
4. Any other matters that the auditor considers should be brought to the attention of Grant Recipient.
5. A time bound actions plan that have been agreed with the management to address each of the individual issue, including date of completion, and person(s) responsible for implementation of the action plan.

J. EXIT CONFERENCE

Upon completion of fieldwork, the auditor should hold a closing or exit conference with senior officials of the auditee. The exit conference gives the auditor an opportunity to obtain management's comments on the accuracy and completeness of the auditor's facts or conclusions, including whether or not management concur with the audit findings. The auditor should document the exit conference for inclusion in the audit work papers.

K. AVAILABLE INFORMATION

The auditor should be given access to all legal documents, correspondence, and any other information relevant for the proposes of conducting the audit and deemed necessary by the auditor

L. TIMING FOR SUBMISSION

- Deadline of submission of the reports shall be as below:

Period Covered	Annual audit plan	Final Draft of annual Audit Report	Annual Audit Report
From 10 Nov 2016 – 31 Dec 2017	26 Feb 2018	15 Apr 2018	10 May 2018
From 1 Jan 2018 – 31 Dec 2018	20 Feb 2019	15 Apr 2019	10 May 2019
From 1 Jan 2019 – 31 Dec 2019	10 Feb 2020	15 Apr 2020	10 May 2020
From 1 Jan 2020 – 31 Dec 2020	23 Feb 2021	15 Apr 2021	10 May 2021
From 1 Jan 2021 – 31 July 2021	6 Sep 2021	15 Oct 2021	15 Nov 2021

Final Annual Audit Report should be submitted to the CPMU in both English and Vietnamese and in hard copies (5 in English and 05 in Vietnamese) and electric file in the CD.

- Auditing will be taken place in:
 - SCiV office: 4th floor, Mercury Building, 444 Hoang Hoa Tham, Tay Ho, Hanoi.
 - Maternal and Child Health (MCH) at 138A Giang Vo Street, Hanoi
 - Provincial Project Management Unit (PPMU): Ban Co Street, Chieng An Ward, Son La city,
 - Provincial Project Management Unit (PPMU): 721 Yen Ninh Street, Yen Bai city.
- The Auditor shall submit reports to Save the Children
 - Address: 4th Floor, Mercury Building, 444 Hoang Hoa Tham, Tay Ho, Hanoi.
 - Telephone: 024.3573.5050 Fax: 024.3573.6060
- The Auditor should maintain and file the work papers and provide them to the World Bank when requested.

M. FIRM'S QUALIFICATION

The Auditing Firm must be legally established and operating in Vietnam and acceptable to the World Bank.

Has knowledge of administrative procedures and the government's approval processes in public procurement. Has experience in working with the provinces.

Has knowledge of regulations, procedures, and methods of international and national procurement in the health sector (knowledge of WB's regulations is an advantage).

The audit work should (shall) be assigned to personnel who have and maintain professional and technical training and proficiency. Auditors must be familiar with following documents of the World Bank: World Bank's Guidelines on Financial Reporting and Auditing of Projects financed by the World Bank; World Bank's Disbursement Guidelines and the Bank's Disbursement Handbook. These documents can be obtained from the World Bank's team leader in charge of the project. Auditors shall hold relevant professional qualifications with in-depth experience in conducting audits of project financial statements. They should be properly granted with relevant professional license by the Ministry of Finance. Composition of the team, task assignment and CVs of expected personnel must follow the World Bank's sample: Request for Proposal – consultant selection. The firm must provide the details of names, qualifications, experience and continuing professional education (CPE) of the proposed auditors, and the details of the principals and managers; and the number of professional staff employed. Specifically:

1. Audit manager:

- Certificates CPA or CA or ACCA;

- At least 07 years of auditing experience;
- Auditing experience in 5 WB funded-projects in 5 recent years;
- Held the post of an audit manager;
- Proficiency in English and computer skills.

2. Team leader:

- Certificates CPA or CA or ACCA
- At least 05 years of auditing experience;
- Auditing experience in 5 WB funded-projects on health in 5 recent years;
- Held the post of a team leader;
- Proficiency in English and computer skills.

3. Five Auditors, each auditor has to offer:

- Post-graduate or graduate Bachelor's Degree on Commerce, Economics, Banking, Accounting, Auditing or equivalent qualifications;
- At least 5 years of auditing experience;
- Experience in 3 WB funded-projects on health in 3 recent years;
- Held the post of an auditor;
- Proficiency in English and computer skills.