

Statement of Audit Needs
(Auditor's Terms of Reference)

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**AGENCY FOR IMPLEMENTATION OF PROJECTS
IN THE FIELD OF AGROINDUSTRY AND FOOD SECURITY
AUDITED PROJECT FINANCIAL STATEMENTS (APFS)
STATEMENT OF AUDIT NEEDS (AUDITOR'S TERMS OF REFERENCE¹)**

I. INTRODUCTION

1. The Government of the Republic of Uzbekistan received a loan from the Asian Development Bank (ADB) in the amount of 154.0 million USD for the implementation of "Horticulture Value Chain Development Project" (Loan No. 3471-UZB (SF)). The Agency for implementation of projects in the field of agroindustry and food security (UZEIFSA) will be the executing agency. A project management office (PMO) will be set up under the existing organization of UZEIFSA.

The main objective of the project is to increase the production and marketing of livestock products. The project consists of 2 components:

- i. Component 1. "Access to credit" is aimed at improving access to long-term and preferential loans for farmers and dekhkan farms, producers of agricultural products, agro-processing enterprises, owners and operators of refrigeration plants, suppliers of trade and logistics services, packaging companies engaged in or planning to produce products in the sector of horticulture development (production, processing) in order to provide them with the opportunity to obtain investment to improve their productivity, improving product quality and competitiveness.

- ii. Component 2. "Project management" is aimed at strengthening the capacity of UZEIFSA in the field of project management, its monitoring and evaluation through the provision of goods, consultancy services, training and financing of running costs, will finance project management, as well as the conclusion and monitoring of contracts for the procurement of goods, works and services, financial management and monitoring, for the training of staff of participating financial institutions (PFIs) of project beneficiaries and capacity-building of AO "Uzagroexport".

The loan agreement of the project was signed by the Government of the Republic of Uzbekistan on March 3, 2017. The project will be implemented by the Agency for implementation of projects in the field of agroindustry and food security (UZEIFSA) under the Ministry of Agriculture and Water Resources during 5 years.

The management of Agency for Implementation of projects in the field of Agroindustry and Food Security (AIFSA) requires an auditor to carry out audit of the Annual Project Financial Statements (APFS) for the projects under ADB Loan No. 3471 for the fiscal years 2020, 2021, and 2022.

II. MANAGEMENT RESPONSIBILITY FOR PREPARING PROJECT FINANCIAL STATEMENTS

2. Management is responsible for preparing and fairly presenting the project financial statements, and for maintaining sufficient internal controls to ensure that the financial statements are free from material misstatement, whether due to fraud or error. In addition, management is responsible for ensuring that funds were used only for the purpose(s) of the project, for compliance with financial covenants (where applicable), and for ensuring that effective internal controls, including over the procurement process, are maintained. *In this regard, management must:*

(i) *Prepare and sign the Audited Project Financial Statements.*

(ii) *Prepare and sign a Statement of Compliance.*

3. *Management must include the following in the Statement of Compliance:*

(i) *That project financial statements are free from material misstatements including omissions and errors, and are fairly presented;*

(ii) *That the borrower or executing agency has utilized the proceeds of the loan only for the purpose(s) of the project;*

(iii) *That the borrower or executing agency was in compliance with the financial covenants of the legal agreement(s) (where applicable);*

(iv) *That the advance account fund procedure, where applicable, has been operated in accordance with the Asian Development Bank's (ADB) Loan Disbursement Handbook;*

(v) *That adequate supporting documentation has been maintained to authenticate claims stated on the statement of expenditures (SOE), where applicable, for reimbursement of eligible expenditures incurred and liquidation of advances provided to the advance account; and*

(vi) *That effective internal control, including over the procurement process, was maintained*

III. OBJECTIVES

4. The objectives of the audit of the project financial statements is to enable the auditor to (i) express an independent and objective opinion as to whether the project financial statements present fairly, in all material respects, or give a true and fair view of the project's financial position, its financial performance and cash flows, and (ii) provide a reasonable assurance opinion over certain specific representations made in the Statement of Compliance. *(please refer to paragraph 10).*

IV. AUDITING STANDARDS

5. The audit is required to be conducted in accordance with International Standards on Auditing (ISA); and International Standards on Assurance Engagements (ISAE). These

standards require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the project financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the project financial statements whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the project financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the project financial statements.

6. The standards to be applied will be documented in the project/loan documents, and will include:

Standards promulgated by the International Auditing and Assurance Standards Board (IAASB):

1. *International Standards on Auditing (ISA); and*
2. *International Standards on Assurance Engagements (ISAE).*

7. In complying with ISA, the auditor will pay particular attention to the following standards:

- ISA 800/ – Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.
- ISA 240/ – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
- ISA 250/ – Consideration of Laws and Regulations in an Audit of Financial Statements.
- ISA 260/ – Communication with Those Charged with Governance.
- ISA 265/_ – Communicating Deficiencies in Internal Control To Those Charged with Governance and Management.
- ISA 330/ – The Auditor's Responses to Assessed Risks.

V. PROJECT FINANCIAL REPORTING FRAMEWORK

8. The auditor will verify that the project financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The executing agency and/or implementing agency are responsible for preparing the project financial statements, not the auditor.

VI. AUDIT DELIVERABLES

Audited Project Financial Statements

9. An auditor's opinion providing reasonable assurance over the project financial statements, and project financial statements comprising the following:

- A statement of cash receipts and payments
- A statement of budgeted versus actual expenditures
- A statement of advance account (where applicable)
- A summary statement of expenditures (where applicable)
- Significant accounting policies and explanatory notes

9.1 **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 (see Terms and Definitions) have 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.

9.2 **Advance Account (or Special Account).** The Advance Account reflects: (i) deposits and replenishment received from financiers; (ii) payments substantiated by withdrawal applications; 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.

9.3 The auditor must form an opinion on whether the Advance Account was used in compliance with required procedures (e.g., those of ADB), and the fairness 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.

9.4 **Statements of Expenditures (SOEs).** The auditor will audit all SOEs used as the basis for the submission of credit withdrawal applications to ADB. These expenditures should be compared for project eligibility with the relevant financing agreements (and with reference to the RRP and other 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 credit disbursement. Annexed to the APFS should be a schedule listing individual SOE withdrawal applications by specific reference number and amount.

9.5 **Compliance with Financial Covenants.** The auditor will confirm compliance with each financial covenant contained in the project legal documents (see Terms and Definitions). Where present, the auditor should indicate the extent of any noncompliance by comparing required and actual performance measurements for each financial covenant for the financial year concerned.

9.6 **Compliance with Financial Assurances.** The auditor will confirm compliance with all financial assurances contained in the project legal documents (see Terms and Definitions). 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.

9.7 **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 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.

9.8 **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.

9.9 **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.

B. Reasonable Assurance Opinion over the Use of Loan Proceeds and Compliance with Financial Covenants

10. The auditor will provide a reasonable assurance opinion following *ISAE 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information"* for the following confirmations provided by Management in the Statement of Compliance:

- (i) That the proceeds of the loan were used only for the purpose(s) of the project; and
- (ii) That the borrower or executing agency was in compliance with the financial covenants of the legal agreement(s), where applicable.

11. The auditor will outline the degree of compliance for each of the financial covenants in the loan agreement.

C. Management Letter

12. The auditor will provide a management letter containing, at a minimum, the following:

- (i) Any weaknesses in the accounting and internal control systems that were identified during the audit, including any irregularity in the use of the advance accountant statement of expenditures (SOE) procedures (where applicable);
- (ii) Any identified internal control weaknesses related to the procurement process such as, over the bidding, evaluation and contract management domains;
- (iii) Recommendations to rectify identified weaknesses;
- (iv) Management's comments on the audit recommendations along with the timeframe for implementation;
- (v) The status of significant matters raised in previous management letters;
- (vi) Any other matters that the auditor considers should be brought to the attention of the project's management; and
- (vii) Details of any ineligible expenditure² identified during the audit. Expenditure is considered ineligible if it refers to (i) expenditures incurred for purposes other than the ones intended under the legal agreement(s); (ii) expenditures not allowed under the terms of the legal/financing agreements; and (iii) expenditures incurred in violation of applicable government regulations.

D. Specific Considerations

13. The auditor will, during the course of the audit, pay particular attention to the following:

- (i) The use of external funds in accordance with the relevant legal and financing agreements;
- (ii) The provision of counterpart funds in accordance with the relevant agreements and their use only for the purposes intended;
- (iii) The maintenance of proper books and records;
- (iv) The existence of project fixed assets and internal controls related thereto;

² If the auditor reports any ineligible expenditure in the management letter, the details of the findings should include the funding source to which the observation relates.

- (v) Where the audit report has been issued under ISA 800 or ISSAI 1800, it shall include the mandatory Emphasis of Matter paragraph alerting users of the audit report that the project financial statements are prepared in accordance with a special purpose framework and that, as a result, the project financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading;
- (vi) Where reasonable assurance has been provided using ISAE 3000 or ISSAI 4200, the assurance report must contain, among others:
 - A statement that the engagement was performed in accordance with ISAE 3000;
 - Subject matter;
 - Criteria for measurement;
 - A summary of the work performed; and
 - The auditor's conclusion.
- (vii) On the advance account procedure (where applicable), audit procedures are planned and performed to ensure (a) the advance account (and any sub-accounts) has been managed in accordance with ADB's Loan Disbursement Handbook, (b) the cash balance of the advance account (and any sub-accounts) is supported by evidence, (c) the expenditures paid from the advance account (and any sub-accounts) comply with the approved project purpose and cost categories stipulated in the loan agreement, and (d) the amount of expenditures paid from the advance account (and any sub-accounts) comply with disbursement percentages stipulated in the loan agreement;
- (viii) Adequate supporting documentation has been maintained to authenticate claims stated in the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the advance account (where applicable);
- (ix) On the SOE procedure (where applicable), audit procedures are planned and performed to ensure that (a) the SOEs have been prepared in accordance with ADB's Loan Disbursement Handbook, (b) the individual payments for expenditures stated in the SOE are supported by evidence, (c) the expenditures stated in the SOEs comply with the approved project purpose and cost categories stipulated in loan agreement, and (d) the amount of expenditures stated in the SOEs comply with disbursement percentages stipulated in the loan agreement; and
- (x) Any weaknesses in internal controls over the procurement process.

14. All reports must be presented in the English language within 6 months following the end of the fiscal year.

15. Public disclosure of the project financial statements, including the auditor's opinion on the audited project financial statements, will be guided by ADB's Access to Information Policy (2018). After review, ADB will disclose the audited project financial statements and the opinion of the auditor on the audited project financial statements no later than 14 calendar days of ADB's

confirmation of their acceptability by posting them on ADB's website. The management letter and the additional auditor's opinions will not be disclosed³.

VII. OTHER MATTERS

Statement of Access

16. The auditor will have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreement(s), bank records, invoices and any other information associated with the project and deemed necessary by the auditor.

17. The auditor will be provided with full cooperation by all employees of the Agency for implementation of projects in the field of agroindustry and food security (AIFSA) and the project implementing units, whose activities involve, or may be reflected in, the annual project financial statements. The auditor will be assured rights of access to banks and depositories, consultants, contractors and other persons or firms hired by the employer.

Independence

18. The auditor will be impartial and independent from any aspects of management or financial interest in the entity or project 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.

Auditor Experience

19. The auditor must be a licensed by Uzbekistan Ministry of Finance audit organization 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 projects or entities comparable in nature, size and complexity to the project or entity whose audit they are to undertake. To this end, the auditor is required to provide curriculum vitae (CV) of the personnel 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.

VIII. DESCRIPTION OF MATERIALS AND TIMING OF DELIVERY

20. The Annual Project Financial Statements (APFS) (see Terms and Definitions) and supporting documentation will be provided to the auditor on the following estimated dates: not later than April 10 of 2021, 2022.

21. Responsibility for the preparation of financial statements, including their adequate disclosure, lies on the management of AIFSA. This includes the maintenance of relevant accounting records and internal control of funds, selection and application of accounting policies,

³ This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2018. *Access to Information Policy*.

ensuring the safety of project assets. The auditor, during the audit will request from the management written confirmations of the submitted information related to the audit.

22. The auditor will provide the following opinions and reports to management (with copies to ADB), in accordance with the following time frames:

- Draft Audit Opinion on the Annual Project Financial Statements of:
– Loan No. 3471-UZB "Horticulture Value Chain Development Project " – not later than May 10 of 2021, 2022, 2023.
- Draft Management Letter on the following projects:
– Loan No. 3471-UZB "Horticulture Value Chain Development Project" not later than May 10 of 2021, 2022, 2023.
- Final Audit Opinion on the Annual Project Financial Statements of:
– Loan No. 3471-UZB "Horticulture Value Chain Development Project " – not later than May 20 of 2021, 2022, 2023.
- Final Management Letter on the following projects:
– Loan No. 3471-UZB "Horticulture Value Chain Development Project" - not later than May 20 of 2021, 2022, 2023.

IX. SUBMISSION OF PROPOSAL AND WORK PLAN

23. You are invited to submit a proposal and a work plan to provide the audit services described in this Terms of Reference. Proposals should address, among other things:

- the extent (if any) that you would not conform to the agreed auditing standards (see Terms and Definitions) 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, Statements of Expenditure, Advance Accounts);
- 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; and
 - the timetable for provision of opinions and reports.
24. The Annual Project Financial Statements (APFS) shall comprise:
- Statement of Accounting/Financial Policies,
 - Statement of Cash Flows/Cash Receipts and Payments,
 - Statement of Uses of Funds by Project Activity, and
 - Notes to the Financial Statements.
25. Annual Project Financial Statements (APFS) and supporting documentation shall be provided for the following loan projects financed by the Asian Development Bank (ADB):
- Loan No. 3471-UZB "Horticulture Value Chain Development Project"

X. TERMS AND DEFINITIONS

The following terms are used in this document:

ADB - Asian Development Bank;

APFS - Annual Project Financial Statements;

Auditor - legal entity chosen by AIFSA for audit of the project;

CV - Curriculum Vitae;

HVCDP - Horticulture Value Chain Development project;

IAASB - International Auditing and Assurance Standards Board;

IFAC - International Federation of Accountants;

IPSAS - International Public Sector Accounting Standard;

ISA - International Standards on Auditing;

PFI - Participating Financial Institution;

UZAIFSA - The Agency for Implementation of Projects in the Field of Agroindustry and Food Security;

SOE - Statements of Expenditures

“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” means the International Standards on Auditing (ISA) promulgated by the International Auditing and Assurance Standards Board (IAASB).