

# **TERMS OF REFERENCE FOR EXTERNAL AUDIT OF OUR CLIENT**

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## **1. Background**

Our Client is a research and training institution established through a Bilateral Agreement between the Government of Kenya (through The Ministry of Water, Sanitation and Irrigation) and the Government of Switzerland, through the Centre for Development and Environment of the University of Berne. The Institution, established in 2002, is based in Nanyuki, Laikipia County, and supports sustainable development of the arid and semi-arid lands (ASALs) of Kenya through research, training and outreach in the key areas of water and natural resources management and governance; regional development and agrarian transformation; livelihood dynamics; and integrated knowledge management and capacity development. The Centre furthermore provides a robust platform for context sensitive and fair research endeavours; and maintains a broad institutional collaborative and partnership network in East Africa and the Global South.

The Bilateral Institution is looking to engage a reputable Audit firm to provide independent external audit services for a period of five years with effect from 1 January 2023.

## **2. Objective of the Audit**

The objective of the audit of the Financial Statements (FSs) is to enable the auditor to express an independent opinion(s) on the Bilateral Institution's Financial Statements: financial position of the Institution at the end of each fiscal year, Statement of comprehensive (Income funds received and expenditures incurred for the relevant accounting period), Statement of cash flow and Statement of movement of reserves.

The books of accounts provide the basis for preparation of the financial statements by the Institution and are established to reflect the financial transactions in respect of the organization. The Institution maintains adequate internal controls and supporting documentation for its transactions.

## **3. Preparation of Annual Financial Statements**

The responsibility for the preparation of financial statements including adequate disclosure is that of the Institution. The Institution is also responsible for the selection and application of accounting policies and prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) and or International Public Sector Accounting Standards and governing legal regulations and statistics.

The auditor is responsible for forming and expressing opinions on the financial statements. The auditor would carry out the audit of the Institution in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part of the audit process, the auditor may request from the Institution a written confirmation concerning representations made in connection with the audit.

#### **4. Audit Scope**

The objective of an audit is the expression of an independent audit opinion on the financial statements. The auditor will conduct the audit in accordance with International Standards on Auditing (ISAs). These standards require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The procedures selected depend on the auditors' judgement and professional skepticism throughout the audit process, these will include the following:

- a) Identification and assessment the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b) Obtaining an understanding of internal control relevant to the audit 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. However, the auditor will communicate to the Institution in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that he/she will have identified during the audit.
- c) Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) Concluding on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.
- e) Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in

a manner that achieves fair presentation.

### **Other Specific tasks**

The Institution's funds have been used efficiently and economically and only for the purpose for which it was provided for

- An appropriate reliable management structure of both administrative and accounting internal controls have been put in place by management.
- Procurement have been carried out per the relevant procedures, taking into account value for money.
- All necessary supporting documents, records and accounts have been kept in respect of the Institution funds for the funding period. Clear linkages should exist between the books of accounts and relevant supporting documentation.
- The accounting and overall management control system is adequate to monitor and ensure proper accounting of all disbursed funds.
- To ensure controls and record on use of the assets of the Institution including Vehicles and Stationery are maintained.
- Rigorous examination of the system of internal controls, including organization Structure, authority levels, staff competence, accounting records and supporting documentation, segregation of duties and monitoring arrangements. Where certain controls are impracticable, appropriate compensating controls should exist.
- To ensure the Institution adheres to Tax and other statutory requirement.
- To plan his/her audit in such a manner that there is reasonable expectation of detecting material misstatements in the accounts resulting from fraud, error or non-compliance with laws and regulations as may be necessary. If Auditor's suspicions are aroused, she/he must inquire into all the circumstances until he/she is satisfied.
- To testify in any case of fraud that the Institution may institute covering areas he/she has audited.
- To maintain his/ her working papers for the time required by Kenyan statutes.
- To offer training and other backstopping services where called upon to strengthen capacity on the Institution staff/management.

## **5. The Audit Report and Management Letter**

### **a. Audit Report**

The audit report should clearly indicate the auditor's opinion. This would include at least the following:

- The addressees and the title of the report
- The opinion of the financial statements which includes
  - ✓ Whether the financial statements and supporting schedules fairly present the financial position, cash flow and surplus for the year, and cash receipts and expenditure in all material respects as the case may be.
  - ✓ Whether the financial transactions reflected in the statements are in accord with IFRS, financial regulations and procedures, budgetary provisions and other applicable directives.
  - ✓ Whether the financial statements agree with the books of account maintained by the Institution
- Basis for the opinion when conducting the audit, these include International auditing standards and the International Financial Reporting Standard (IFRS).
- Identification of other information that may be material and/or relevant to the audit
- Director's responsibility for the financial statement
- What are the auditor's responsibilities for the audit of the financial statement?
- A report on other matters prescribed by Bilateral/framework between the Government of Kenyan and other donor countries and institutions
- The auditor may expand the report to include other information and explanations not intended as a reservation.
- Audit reports will be provided in English.

### **b. Management Letter**

The auditor shall submit a letter to the management at the completion of the audit. The topics and issues to be covered in the letter should include:

- Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
- Identify specific deficiencies or areas of weakness in systems and

controls, and make recommendations for their improvement;

- Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
- Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
- Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
- Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
- Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures and appropriateness of exchange rates used.
- Recommendations to resolve/eliminate the internal control weaknesses noted should be included.
- Management comments/response to audit findings and recommendations.

Where the auditor finds no specific major deficiencies or areas of weakness in systems and controls, he should provide a letter to confirm that.

## **6. Auditor Independence and Qualification**

The auditor must be completely impartial and independent from all aspects of management or financial interests in the entity being audited. The auditor should not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of the Institution. The auditor should disclose any relationship that might possibly compromise his/her independence.

The auditor should be experienced in applying ISA and IFRS. The auditor must employ adequate staff with appropriate professional qualifications and suitable experience with ISA including experience in auditing the accounts of entities comparable in size and complexity to the Bilateral Institution.

Curriculum vitae (CVs) should be provided to the Institution by the principal of the audit firm who would be responsible for signing the opinion, together with the CVs of managers, supervisors and key personnel proposed as part of the audit team. CVs should include details on audits carried out by the applicable staff, including ongoing assignments indicating capability and capacity to undertake the audit and experience in auditing financial statements compliant with the International Financial Reporting Standards

## **7. Access to Facilities and Documents**

The auditor will have full and complete access at any time to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts etc.) and all employees of the entity. The auditor will have a right of access to banks and depositories, consultants, contractors and other persons or firms engaged by the management over the period under the audit review.

## **8. Auditor Experience & Qualification**

1. The Audit Firm should be registered, and have a practicing license from Institute of Certified Public Accountant. The firm should have relevant experience in accounting & auditing of membership organization and projects especially donor funded operations.
2. The audit firm should have at least three full time partners, not less than 10 employees and have been in existence for not less than Fifteen (15) years.
3. The Key Team will comprise of at least
  - i) Engagement Partner with over 10 years audit experience with sound knowledge of donor financed projects.
  - ii) An Audit Manager with over 5 years of experience in Audit and with a sound knowledge of donor financed projects;
  - iii) An Audit Team Leader with at least 5 years' experience in Audit; and
  - iv) Sufficient Assistant Auditors with adequate experience & professional qualifications. He/she should have at least 3 years.

## **9. Submission of Proposal**

### **Technical:**

- a) Profile of the firm and capability statement.
- b) Experience of the firm in carrying similar assignment;
- c) Auditors understanding of the TORs
- d) Qualifications and experience of key individual auditors to be involved in this assignment
- e) Proposed detailed methodology to undertake this assignment.
- f) Proposed work plan.
- g) List of organizations for which the auditor has delivered similar

assignments in the last 3 years.

**Copies of documents to be attached:**

- a) PIN certificate.
- b) Current KRA Tax compliance certificate.
- c) CV's of the key team members who would be part of the audit team.
- d) Letters of recommendations/testimonials from at least three clients.

**Financial:**

The financial proposal should be adequately detailed covering the professional fees required to undertake the audit.

Proposals should be submitted on or before 29<sup>th</sup> September 2022 by EMAIL to [jorogekungu@yahoo.com](mailto:jorogekungu@yahoo.com) with a copy to [info@nkungu.co.ke](mailto:info@nkungu.co.ke)

**PROPERLY ADDRESSED**

**REF: AUDIT PROPOSAL TO PROVIDE EXTERNAL AUDIT SERVICES.**

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You can also contact us on 0722840667