

# Terms of Reference

The Building Capacity in Statistics and Audit project (CAPSA) is seeking proposals from suitably qualified audit firms to conduct the audit of the project financial statements for each of the years ending 31 December 2024 to 31 December 2028.

It is expected that the successful audit firm or firms will conduct the audits and attend relevant meetings with the Auditee and the Project Audit Oversight Committee in person in country.

## 1 Project overview

### 1.1 Background

The Building Capacity in Statistics and Audit in the Solomon Islands (CAPSA) Project is a World Bank funded project which aims to build the capacity of the Solomon Islands National Statistics Office (NSO) and the Office of the Auditor General of the Solomon Islands (OAG) to meet their respective mandates in contributing to evidence-based policy-making and improved government accountability. The CAPSA project is aligned with the Country Partnership Framework (CPF) for Solomon Islands for the period FY18 –24 and has three components, the first component is directed to NSO, the second component is for OAG and the third component is shared between NSO and OAG for project management activities. The components comprise;

1. Component 1 Strengthening statistical capacity will be implemented by the NSO and will finance:
  - the implementation of the Household Income and Expenditure Survey (HIES) with improved methodologies,
  - improvements to national accounts and economic statistics, and
  - a suite of technical and institutional capacity building activities.
2. Component 2 Strengthening audit capacity will be implemented by the OAG and will finance
  - strengthening quality assurance practices and improving audit quality, and
  - improving the public impact of audits and
3. Component 3 Project Management will be a shared responsibility under both Implementing Agencies (IAs).

### 1.2 Funding Agreement

The project is funded through a grant from the International Development Association (IDA) with a total funding of SDR 5 million to be disbursed over five (5) years from 2023 through to 2028. The grant is governed by a Financing Agreement signed between IDA and the Solomon Islands Government (SIG) in December 2023.

### 1.3 Implementing Agencies (IA)

The Implementing Agencies for the project are the Solomon Islands National Statistics Office (NSO), headed by the Government Statistician, and the Office of the Auditor General, headed by the

Auditor General. NSO is an agency under the Solomon Islands Ministry of Finance and Treasury while the Auditor General's Office is an independent agency.

#### **1.4 Project Support Team**

The project support team (PST) supports both Implementing Agencies (IA) to implement the project, interface with World Bank systems for procurement and financial management and comply with the project-level reporting requirements of the project. The PST works across both agencies and report to a Project Steering Committee (PSC) co-chaired by the Auditor General and the Government Statistician.

The implementation of the project is governed by a Project Operations Manual.

#### **1.5 Current Status of project**

The project is in its initial phase of implementation and procurement for major activities are on-going. Recruitment for key advisory positions within both Implementing Agencies is also on-going.

#### **1.6 Accounting Software and Financial Reporting**

The CAPSA project uses MYOB Accounting software as well as Microsoft Excel to maintain its financial records. Interim unaudited financial reports are prepared every quarter by the PST.

#### **1.7 Staff and Employees**

The project manages the contracts of the project support team, advisors, supervisors, and enumerators. To date, the project manages about 200 contracts, but recruitment is still on-going.

The project team comprises the Project Manager, Local Finance Manager, Procurement & Admin Officer and an International Finance & Portfolio Manager.

### **2 Objectives**

The objectives of the audit of the project financial statements are to express an opinion on the financial position of the project for the financial years ending 31 December and of the income and expenditure for the accounting period ending on that date for IDA GRANT No. E257-SB and all other project sources of financing, to report on the adequacy of the internal controls, and to express an opinion on compliance with the covenants of the loan agreement and applicable country laws and regulations. The project's books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of the project.

### **3 Responsibility for preparation of financial statements**

The project's management team, which includes both IAs, is responsible for the preparation of financial statements, including the maintenance of adequate accounting records and internal controls, the application of accounting policies, the safeguarding of the assets of the project, and adequate disclosure. As part of the audit process, the auditor will request from management written confirmation concerning representations made to us in connection with the audit.

## 4 Scope

The audit firm will perform comprehensive and adequate audit procedures, as required by International Standards on Auditing (ISA), to enable it to provide an opinion on the financial statements of the Auditee as to whether the statements fairly present the Auditee's financial position and the results of its operations in terms of International Accounting Standards. To achieve this objective, the audit firm will examine the Auditee's accounting records and other supporting documents, and develop an audit plan and procedures to be performed.

ISA require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In complying with ISA, the auditor is expected to pay particular attention to the following matters, including special considerations for public sector entities:

- In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud, as required by ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
- When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements, as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements.
- The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity, as required by ISA 260: Communication of Audit Matters with those Charged with Governance.
- The auditor should appropriately communicate to those charged with governance and to management any deficiencies in internal control that the auditor has identified in an audit of Financial statements, as required by ISA 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.
- To reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level, as required by ISA 330: The Auditor's Responses to Assessed Risks.
- When certain aspects of an entity's operations are performed by a third-party service provider, the auditor is expected to include an understanding and assessment of the internal control environment of the service provider during the audit process, as required by ISA 402: Audit Considerations Relating to an Entity Using a Service Organization.
- As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance, as required by ISA 580: Written Representations.
- When the external auditor decides to use the work of an entity's internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, the determination shall be in accordance with ISSAI 1610 (Revised):

Using the Work of Internal Auditors.

- In determining whether to use the work of an auditor's expert or the extent to which the work of an auditor's expert is adequate for audit purposes, the determination shall be made in accordance with ISSAI 1620: Using the Work of an Auditor's Expert.

In evidencing compliance with agreed project financing arrangements, the auditor is expected to carry out tests to confirm that:

- All external funds have been 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. Relevant financing agreements include GRANT No E257-SB.
- Goods, works, and services financed have been procured in accordance with the relevant financing agreement, including specific provisions of the World Bank Procurement Guidelines.
- All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) or Interim Unaudited Financial Statements (IFS) methods of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account.
- in respect of any non-compliance, the auditor will have regard to which component of the project the non-compliance arises from and will include an emphasis of matter if there is a substantial difference in compliance between the components of the project.

## **5 Project financial statements**

The auditor should verify that the financial statements have been prepared in accordance with International Public Sector Accounting Standards Cash Basis. For each fiscal year, the financial statements should include:

- A statement of Cash Receipts and Payments;
- A comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
- Notes, comprising a summary of significant accounting policies and other explanatory notes.
- Supporting schedules to the financial statements which at least include:
  - (i) A reconciliation of the amounts shown as "received by the project from the World Bank" with those shown as being disbursed by the Bank.
  - (ii) Statement of Expenditures (SOE), presented under project account headings and main categories of expenditures, and a listing of individual SOE withdrawal applications by specific reference number and amount in each financing agreements.
  - (iii) Designated Account statement showing movement and reconciliation with the bank statements
- A Management Assertion that the Bank funds have been expended in accordance with the intended purposes.

## **6 Review of Statements of Expenditure (SOE) and Interim Unaudited Financial Reports (IFRs)**

The auditor is required to audit all SOE submitted to the World Bank in support of requests for periodic replenishment of the project designated accounts. Expenditures reported in the SOE and IFRs should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. The auditor should report any questionable expenditures identified as having been included in withdrawal applications and reimbursed and reported in the IFRs.

## **7 Review of designated accounts**

During the audit of the project financial statements, the auditor is required to review the activities of the project's designated account(s). Activities to be examined will include deposits received, payments made, interest earned, and reconciliation of period-end balances.

## **8 Audit Reports**

The audit firm will prepare an audit opinion on the financial statements, along with a draft management letter raising matters of internal control and accounting deficiencies with recommendations for improvements and a detailed list of audit adjustments with full explanations. The Auditee (which includes the Implementing Agencies) will be given an agreed amount of time to review the findings and provide management responses. The draft management letter will also include the progress of those recommendations reported in the prior year's management letter. The audit report will include an opinion on the Designated Accounts (DAs) for the period audited, stating whether the DAs adequately reflects the flow of funds for the DAs during the audited period and, if this activity has been only for the purposes of the project. The final audit report should be provided to the Audit Oversight Committee for review and sign-off and to the World Bank for information.

The scope of the report will involve:

1. Preparation of a recommended audit opinion to the Audit Oversight Committee on the financial statements for the Auditee for the periods ending 31 December, commencing with the financial year ending 31 December 2024, in relation to its Statement of Cash Receipts and Payments and related financial information in the notes to the accounts, in a format consistent with the applicable financial reporting framework and compliance with requirements prescribed under the WB financing agreement.
2. Preparation of a management letter raising matters of internal control and accounting treatment deficiencies, any fraud and corruption, and a detailed list of auditor adjustments, if any, with a full explanation for such adjustments. There should also be recommendations included where improvement is required, and the progress of the prior's year recommendations. The management letter should also include comments and recommendations on the management information systems and IT infrastructure, and processes and controls applied by the Auditee in using the management information systems. Where management letter points arise in relation to some but not all components of the project, this will be clearly stated in the title and body of each management letter point.

## **9 Audit opinion**

The auditor will issue an audit opinion based on the audit findings. The audit opinion prepared by the audit firm shall be based on an evaluation of the conclusions drawn from the audit evidence obtained and shall be expressed clearly through a written report that also describes the basis for

that opinion. The draft audit report shall be prepared in accordance with ISA 700: Forming an Opinion and Reporting on Financial Statements.

A modified audit opinion shall be rendered in the financial statements when the auditor concludes, on the basis of the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Modified audit opinions shall be in accordance with ISA 705: Modifications to the Opinion in the Independent Auditor's Report.

The auditor will include emphasis of matter paragraphs or other matter paragraphs in the audit opinion where the auditor, having formed an opinion on the financial statements, seeks to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report. The paragraphs will refer to either a matter that, although appropriately presented or disclosed in the financial statements, is of such importance that it is fundamental to users' understanding of the financial statements; or as appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report. This form of opinion will be presented in accordance with ISA 706: Emphasis of Matter Paragraphs or Other Matter Paragraphs in the Independent Auditor's Report. The auditor will include an Emphasis of Matter if a modified opinion arises from exceptions related to some or all of the project components.

## **10 Other audit reports**

In addition to the audit opinion, the audit firm will also, either in the recommended audit report or in the draft report to management:

- provide comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
- identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
- report on instances of noncompliance with the terms of the financial agreement(s);
- quantify and report expenditures that are considered to be questionable and either paid out of the designated account(s) or claimed from the World Bank;
- communicate matters that have come to attention during the audit that might have a significant impact on the implementation of the project; and
- bring to the borrower's attention any other matters that the auditor considers pertinent.

## **11 General**

The audit firm will need to be registered with the Institute of Accountants Solomon Islands (ISIA) in accordance with ISIA's regulations.

The auditor is entitled to unlimited access to all information and explanations considered necessary to facilitate the audit, including legal documents, project preparation and supervision reports, reports of reviews and investigations, correspondences, and credit account information. The auditor may also seek written confirmation of amounts disbursed and outstanding in the Bank records.

The auditor is encouraged to meet and discuss audit-related matters, including input to the audit plan, with the World Bank project task team.

It is highly desirable that the auditor reviews the Bank's financial reporting and auditing requirements contained in Operational Policies OP 10.00 Investment Project Financing; OP 9.00 Program for Results Financing; OP 8.60 Development Policy Lending. The auditor should also be familiar with the Bank's Disbursement Handbook and Financial Monitoring Reports for World Bank-Financed Projects: Guidelines for Borrowers, November 30, 2001; Guidelines: Procurement under IBRD Loans and IDA Credits, January 2011; and Guidelines: Selection and Employment of Consultants by World Bank Borrowers, January 2011.

In carrying out their assignments the staff of the audit firm will exercise the utmost discretion regarding all matters of official Auditee business and will not communicate to any person or Auditee any information known to them by reason of this audit engagement, except with the prior approval of the Auditee.

## **12 KEY PERSONNEL:**

The key personnel in the audit team and their minimum qualifications are indicated below:

- The audit team should be led by an Audit Partner with a minimum of 10 years of post-qualification experience as a practising Chartered Accountant or a Certified Practising Public Accountant in Solomon Islands or other recognised jurisdictions.
- Day-to-day management of the audit should be the responsibility of an Audit Manager/Partner with at least 5 years of post-qualification experience as a practising Chartered Accountant or a Certified Practising Public Accountant.

In addition, the audit team should include sufficient number of appropriate staff commensurate with the size and scope of the assignment:

- Audit Seniors with at least 2 years of post-qualification experience as a practicing auditor,
- Junior Staff

The auditor will provide, as part of the technical proposal, the composition of the audit team along with the qualifications, experience and the list of tasks that each team member is required to complete.

## **13 Liaison with the Audit Oversight Committee and the Auditee**

During the audit engagement, the audit firm will liaise directly with the Audit Oversight Committee in accordance with the terms of the Audit Services Contract. The particular contact points relate to:

- Approval of detailed audit plan identifying the audit risks and response for the period under review and a timeline for the audit which includes key milestones against which performance will be monitored;
- Timely notification on any matters of significance, including fraud and corruption, malpractice, of which the Audit firm becomes aware in the course of the audit or in relation to any other matter likely to affect the scope, timing or completion of audit;
- Proposed additional work variations due to unanticipated changes within the auditee's systems or records, to be advised prior to continuation of the audit;
- Committee presentation of the Management Letter (if required).

## 14 Liaison with the Auditor General

Since the OAG, as an Implementing Agency of the CAPSA project, is one of the Auditee, the Audit firm will maintain a minimum level of engagement with the OAG keeping in mind the OAG's constitutional obligations as auditor of public accounts. Any audit procedures that the OAG is required to perform under its mandate are outside the scope of this ToR.

## 15 Schedule of Work

The auditor's opinion on the financial statements and management letter should be received by the Bank no later than six months after the end of the financial year. This submission date is dependent upon the project office issuing the financial statements to the Auditor on or before 28 February each financial year.

The audit firm is required to submit a timeline using the key milestones which will enable the entity to meet the above deadlines. To achieve this, the audit firm will need to submit their working papers and draft reporting to the OAG three weeks before the deadline. The audit firm will be required to provide audit services according to the following indicative schedule:

Key milestones	Indicative Timeline (2025)	Subsequent years
<b>Phase 1 – Planning and Preparation</b>		1 <sup>st</sup> April
Initial audit planning, including update of audit programme		
Convene audit planning meeting with the Audit Oversight Committee to discuss audit plan		
<b>Phase 2 – Fieldwork and Data Collection</b>		15 <sup>th</sup> April
Year-end audit procedures		
<b>Phase 3 – Analysis and Reporting</b>		1 <sup>st</sup> May
Audit firm letter of representation delivered to Audit Oversight Committee		
<del>Prepare draft</del> Prepare draft version of financial statements, proposed management representation letter and listing of adjusted / unadjusted differences		
<del>Prepare Audit</del> Prepare Audit Opinion.		
<b>Phase 4 – Follow-up and Action Plan</b>		15 <sup>th</sup> May

Final Management Letter with management responses		
Attend Committee meeting to present the Management Letter (if applicable)		