

Auditor Terms of Reference

**TERMS OF REFERENCE FOR THE AUDIT OF
Jamaica – Ministry of Finance and the Public Service, Strategic Public Sector
Transformation Project
FINANCED BY WORLD BANK CREDITS IBRD Loan # 8406 JM
IMPLEMENTED BY THE Project Implementation Unit of the Strategic Public
Sector Transformation Project] DURING THE PERIOD 1st April 2018 to 31st March
2019 and 1st April 2019 to January 2020.**

I. Basic Considerations for Audits of Projects Financed by the World Bank

These Terms of Reference provide the basic information needed by the auditor to obtain an understanding of the engagement, in order to prepare a proposal and to plan and perform the audit. The information must be complemented with: Terms of Reference for Audits of Projects, World Bank Disbursement Guidelines for Projects (2017), Financial Management Manual for the Project, Disbursement Letter and supporting annexes'. The auditors must also be familiar with the Financial Monitoring Reports for the World Bank financed Projects. These documents constitute the basic criteria against which the Bank will measure the quality of the auditor's work when performing the desk review of the audit report. Furthermore, the "Guidelines" are specifically considered an integral part of the TORs.

II. Relationships and Responsibilities

The client for this audit is the Implementing Entity (IE), Ministry of Finance and the Public Service, Strategic Public Sector Transformation Project), and the Bank is an interested party. A Bank representative may participate in the entrance and exit conferences; supervise the work performed by the auditors to ensure that it complies with the terms of reference and the applicable auditing standards, and to provide comments on the draft audit report.

The implementing entity of the Strategic Public Sector Transformation Project is responsible for preparing all the financial statements and reports required, and for ensuring that all the necessary records are available for the audit, that all the accounting entries and adjustments are made, and that all the necessary actions have been taken to allow the auditors to issue the final report on or before 20th September 2019 and 24th July 2020 respectively.

The auditors should maintain on file adequate working papers for a period of three years after the end of the audit. During this period, the auditors should promptly provide the working papers requested by the Bank.

III. Project Background

Strategic Objectives of the Project:

Project Objectives

The Project Development Objective (PDO) is to strengthen public resource management and support selected public sector institutions in facilitating a more enabling environment for private sector growth.

Components

The program is structured in six components, briefly described in the following paragraphs. A full description of the components is found in the Project Appraisal Document.

Component I. Strengthening the Public Investment Management System (PIMS)

The objective of this component is for the PSIP to incorporate public investment projects with estimated five-year operating and maintenance costs fully linked to long term development goals and medium-term priority areas.

This component will support the GOJ reform efforts through the following activities: (i) migration of the current web-based database to a robust platform to manage all information about public investment across the project cycle and linked to the budgeting and financial systems of the country (expected to be compiled into IFMIS); (ii) design and implementation of a public investment management training program for public sector; (iii) reviewing legislation and carrying out dissemination activities to integrate the PIMS with the administrative systems (including procurement and human resources); (iv) strengthening monitoring through Citizens Participation; (v) designing a fund for the funding of pre-investment financial and economic analysis and post-investment evaluations of the public investments; and (vi) provision of technical assistance for the implementation of the Public Financial Management Action Plan.

Component II. Strengthening the Budget Preparation Process and Results Based Budgeting (RBB)

The objective of this component is to link budgeting with government policy priorities through a gradual transition from annual expenditure planning to a medium-term results-based expenditure framework.

Component III. Adaptive Public Sector Approaches to Promote Fiscal Sustainability

This component will support measures to institutionalize the process of behavioural change to support new policy processes and provide just-in-Time Technical Assistance (TA) to take into account ad hoc needs of the government and to effectively take advantage of opportunities of intervention when they arise, enabling to bridge policy and implementation gaps revealed in the course of project implementation.

Component IV. Modernizing of the Accountant General's Departments

The fourth component of the Project will reform the organizational structure, develop a conceptual model of the treasury single account, clarifying its scope, coverage and main operational processes improving the central treasury management system's general ledger capabilities and building capacity of the Accountant General's Department. Component IV, is being executed through the Disbursement Linked Indicator (DLIs) Modality. Loan resources of this component are accessed through reimbursement.

Component V. Fostering Industrial Growth and Trade Facilitation

The fifth component provides technical assistance to the Bureau of Standards Jamaica. The

Project will support capacity building activities aimed at reducing barriers to trade and activities to build a national culture of quality review of BSJ's testing and certification procedures to ensure compliance with and regional trade agreements and standards.

Component VI. Project Management

This component will ensure adequate Project management is in place for the implementation of the Project. The activities under this component will include: (i) carry out Project audits; (ii) comply with the financial management and procurement obligations under the Project; (iii) monitor and evaluate Project activities; (iv) provide training, and the acquisition of goods required thereof and finance Operating Costs.

Executing Agency and Beneficiary

The executing agency will be the Ministry of Finance and the Public Service (MOFPS), and it will also be the main beneficiary of many of the activities proposed by this Investment Project Financing (IPF). The Project Implementation Unit (PIU) that is established within the MOFPS will be responsible for implementing the project. Institutional arrangements have been designed and an implementation support plan will be in place to ensure that if capacity problems arise, these will be addressed promptly. MOFPS will coordinate activities across other beneficiaries of the Project which are mainly executive agencies and divisions spread across Ministries. The project will support activities across selected service delivery ministries, departments, and agencies (MDAs), particularly for components I, II and III with significant coordination efforts that will be contributed by the Public Expenditure Division in MOFP and the Planning Institute of Jamaica (PIOJ). The modernization of the Accountant General's Department to include (a) the development of a conceptual model of the treasury single account, (b) reform of the organizational structure, (c) improving the Central Treasury Management System's general ledger capabilities to provide the required level of controls and information; and (d) training to build the treasury capacity in cash forecasting and management are tied to Disbursement Link Indicators (DLI's) which provides financing to Component IV under the Eligible Expenditure Program (EEP). The entity reporting to the MOFPS that will be the key actor for the second thematic area on industrial growth and trade facilitation covered by Component V is the Bureau of Standards of Jamaica as well as the National Compliance Regulatory Agency (NCRA) service orientation with a specific aim of reducing barriers to trade and activities to build a National Culture of Quality, other border will be supported by the project.

IV. Project Financing

The Project is funded through a US\$35M loan from the International Bank for Reconstruction and Development (IBRD). The planned funding is as follows:

Components	Amounts (US\$)
Strengthening Public Investment Management System (PIMS)	08.00
Strengthening Budget Preparation Process and Results Based Budgeting	02.70
Adaptive Public Sector Approaches	12.10
Modernization of the Accountant Generals Department	06.00
Fostering Industrial Growth & Trade Facilitation	05.00
Project Management	01.13
Front End Fees	00.09
Total	35.02

Annual fiscal space to spend loan resources is provided through the Government of Jamaica budget cycle. For the fiscal period 2018/2019, an amount of JA\$648,095,678 (Approximately US\$4.8M) has been earmarked to be expended among Components 1, 2, 3, 5 and 6. Component 4, the DLIs component has targets valuing US\$2.4M to be attained in the 18/19 fiscal period through a reimbursement modality. The DLI targets for the Accountant General's Department are reports linked to the Modernization of the Department. For the 18/19 fiscal period, four (4) reports were targeted.

For the fiscal period 2019/2020, provision of fiscal space has been created for approximately JA\$1.25B (US\$9.057M) in respect of external sources to support eligible expenditures under components 1, 2, 3, 5 and 6. Three Million United States (US\$3M) is earmarked for reimbursement under the Disbursement Linked Indicators (DLIs), Component 4. This US\$ amount is linked to a target of five (5) reports.

V. Audit Background

The IBRD loan was approved on 7th July 2014, signed on 3th September 2014 and became effective on 27th October 2014. Amendment number 1 to the loan, dated 30th of June 2017 was signed on the 4th August 2017. The Agreement includes a requirement for the project's resources to be audited annually. To date the project has completed three (3) annual audits.

VI. Title of the Audit

All proposals, audit working papers and audit reports should refer to this audit using the following name:

“Audit of the Resources Managed by the Ministry of Finance and the Public Service under the Jamaica Strategic Public Sector Transformation Project during the period from 1st April 2018 to 31st Mar 2019 for IBRD Loan # 8406 JM.

“Audit of the Resources Managed by the Ministry of Finance and the Public Service under the Jamaica Strategic Public Sector Transformation Project during the period from 1st April 2019 to 31st January 2020 for IBRD Loan # 8406 JM.

Audit Objectives

The overall objective of this engagement is to perform a special purpose framework financial audit, as defined by International Organization of Supreme Audit Institutions (INTOSAI) and allow the auditor to express a professional opinion on the financial position of the project at the end of the period audited including whether the financial statements are prepared, in all material respects, in accordance with applicable reporting framework, the eligibility of expenditures, compliance with applicable laws, regulations and financial clauses of the loan agreement and to report on the adequacy of the internal controls.

The objective of the engagement also includes obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditors to express an opinion on whether the financial statements are prepared in all material respects, in accordance with the applicable special financial reporting framework; report on the financial statements and communicate the results of the audit, in accordance with the auditor's findings.

The engagement will include an audit of resources provided by the Bank and an assessment of the internal controls of the Ministry of Finance and the Public Service, Strategic Public Sector Transformation Project. The Bank funds shown in the Project financial statements should be reconciled with Bank's records.

Audit of the Project. This special purpose audit must be performed in accordance with the International Standards on Auditing (ISA or ISSAIs) or other national standards which does not significantly depart from the international standards and therefore must include the tests of the accounting records that the auditors consider necessary under the circumstances. In relation to the Financial Statements as per Appendix # 1, the specific outputs of the audit are:

- Issue an opinion as to whether the Project financial statements, including notes present fairly, in all material respects, the financial position of the project, the funds received and the disbursements made during the period audited, as well as the cumulative investments at the end of the period, in accordance with financial reporting provisions outlined in the respective legal agreements with the Bank and other co-financing organizations.
- Issue an opinion as to whether: (a) the expenditures reported are eligible for financing; and (b) loan funds have been used only for Project purposes.
- Issue a report with respect to the adequacy of the internal control structure of the implementing institution in regard to the project.
- Issue an opinion with respect to the implementing entity's compliance with the terms of the loan/credit agreements and applicable laws and regulations (with regard to the financial aspects).
- Issue an opinion as to whether the Statement of the Designated Account and Project Accounts used for managing the funds provided by the Bank presents fairly the availability of funds at the end of the period audited, as well as the transactions made during the same period, in accordance with financial reporting provisions outlined in the project's legal agreements.
- Issue an opinion on the achievement Disbursement Linked Targets (DLTs) for the period audited. The Auditors must issue an opinion explicitly covering the achievement of the set milestones.

VII. Scope of the Audit

In accordance with ISSAIs, the audit must include adequate planning, the evaluation and testing of the internal control structure and systems, and obtaining sufficient objective evidence to allow the auditors to reach reasonable conclusions on which to base their opinions. In conducting their work, the auditors should pay special attention to the following requirements:

- All project funds should be 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.
- Goods, Works and Services financed should be procured in accordance with the relevant financing agreement and procurement guidelines.
- Implementing entity should keep all necessary supporting documents, records, and accounts in respect of all project ventures including expenditures reported via, unaudited Interim Financial Reports (IFR) or Designated Accounts. Clear linkages should exist between the books of account and the IFRs presented to the Bank.
- Where Designated Accounts have been used, they should be maintained in accordance with the provisions of the relevant financing agreement.
- The project accounts should be prepared in accordance with financial reporting provisions outlined in the project legal agreements and is consistently applied, and give a true and fair view of the financial situation of the project at the end of the period and of the resources and expenditures for the year ended on that date.

The audit should be performed in accordance with acceptable auditing standards, and therefore should include tests of the accounting records that the auditors consider necessary under the circumstances. The auditors should have the ability to detect situations or transactions that may indicate fraudulent, wasteful or illegal acts and expenditures. If such evidence exists, the auditors must communicate the situation simultaneously to a duly authorized representative of the Bank and to the Project management, and exercise caution and due professional care in expanding their audit steps and procedures related to illegal acts. Section 240 of the International Standards on Auditing provides guidance on this respect.

VIII. Other Responsibilities of the Auditor

The auditor should comply with the following requirements:

- A. Conduct entrance and exit conferences with the implementing entity.

- B. Plan the audit work so that preliminary reviews can be conducted during the period under review (including the first few months), with the purpose of evaluating the systems of internal control and communicating to the implementing unit in a timely manner any situations that merit the attention of management before the issuance of the final audit report.
- C. Independently reference the audit report before issuing it.
- D. Obtain a Management Representation Letter in accordance with Section 580 of the International Standards on Auditing, signed by the management of the Project IE.

IX. Audit reports

The auditors shall issue their report containing the specific opinions and conclusions required. All the reports resulting from the audit of the project should be expressed in USD. This report should be addressed and delivered to the implementing entity as per section X – ‘Terms of performance’.

- . The report(s) shall be issued in English, duly signed and bound, in original and 7 (Seven) copies. A soft copy is also to be submitted.

The report for the Project should contain at least:

- A. A title page, table of contents, a transmittal letter to the IE and a summary containing the information required in the Guidelines.
- B. The audit report and opinion for the Project financial statements, their corresponding notes and supplementary information. Also, an opinion on the eligibility of the expenditures reported and the correct use of the Loan funds. Any costs that are not supported by adequate records or that are not eligible under the terms of the loan agreement (questioned costs) should be identified.
- C. The audit report on the internal control structure for the Project. The report should disclose, among other information discussed in the Guidelines, the reportable conditions (those that have an impact on the financial statements), including the identification of material weaknesses in the internal control structure of the implementing unit, as well as the IE’s comments.
- D. A management letter including the follow-up of recommendations made in prior audits, indicating the current status of the recommendations as corrected, partially corrected, or not corrected. The deficiencies that still have not been corrected should be reported again in the current audit report, along with the corresponding management’s comments.
- E. In pursuant to the World Bank’s policies audited financial statements are publicly disclosable but management letters are not. As such, both reports should be segregated.

- F. The audit report and opinion on the implementing entity compliance with the terms of the loan/credit and legal agreements and applicable laws and regulations related to the Project's financial activities.
- G. An audit report and opinion on the Statement of Requests for Replenishment (IFRs) for the period audited. The Auditor must issue an opinion explicitly covering: (i) the eligibility of the expenditures submitted for replenishment, (ii) the adequacy of the control procedures for preparing the IFRs, and (iii) the correct use of the loan and credit funds.
- H. An audit report and opinion on the Designated Account Statement for the period audited. The opinion should state whether the DA Statement adequately reflects the flow of funds for the DA during the period audited, and if this activity has been only for purposes of the project.
- I. A summary of the main audit procedures performed for planning the audit, evaluating the internal control structure, checking the figures included in the financial statements and other areas subject to audit, and for evaluating compliance with terms of the applicable agreements, laws and regulations.

X. Inspection and Acceptance of the Audit Work and the Reports

The Bank is responsible for inspecting and accepting the audit reports, and may appoint individuals or firms to carry out these activities, including the review of the working papers and of the auditor's quality control procedures. If the report is not acceptable or not fully satisfactory due to deficiencies in the audit work or because the report does not comply with the requirements stated in these TORs or the Guidelines, the auditor shall perform the necessary additional work at no additional cost to the IE, the Project or the Bank.

Also, the representative of the Bank may contact the auditors directly to request any additional information related to any aspect of the audit or the Project financial statements.

If the Bank determines the audit report is not fully satisfactory, it will send a letter or e-mail to the implementing entity indicating suggestions to correct the deficiencies identified, and asking that the Bank be informed of any corrective actions taken. The implementing entity will also be informed of any aspects of the audit report that are not in compliance with this TOR, so that the Auditor will correct the deficiency within a specific timeframe or in the subsequent audit.

XI. Terms of Performance

The auditor will issue the following:

1st April 2018 – 31st March 2019

#	Deliverables	Due Date	Payment Schedule
1	Audit Plan	On or before 9 th August 2019	10%
2	Draft report and Management Letter	On or before 13 th September 2019	40%
3	Final audited report and Management Letter with responses	On or before 25 th September 2019	50%

1st April 2019 – 31st January 2020

#	Deliverables	Due Date	Payment Schedule
1	Audit Plan	On or before 04 th May 2020	10%
2	Draft report and Management Letter	On or before 10 th July 2020	40%
3	Final audited report and Management Letter with responses	On or before 24 th July 2020	50%

Deliverables # 1 & 2 are to be accepted by the MoFPS and SPSTP prior to payment. Deliverables # 3, is to be accepted by the MoFPS and the SPSTP as well as the World Bank prior to processing of payment.

These dates are important to allow the Project Implementing Entity to send to the Bank the final audit report for the Project on or before 30th September 2019 and 31st July respectively.

In order to comply with these dates the PIU will present the audit schedules and draft Financial Statements to the Auditors on 2nd August 2019 and 1st May 2020 respectively.

X. Qualifications and Experience of Firm

The auditor is expected to employ adequate staff with the appropriate professional qualifications and suitable experience, as guided by the auditing of accounts of entities of a comparable size and complexity.

The composition of the audit team shall include at least a category 1 auditor who has the ultimate responsibility for the audit and an appropriate mix of category 2 – 3 auditors. For each category the auditors must have the qualifications and experience as set out below under Key Personnel. It is the responsibility of the auditor to propose and use an audit team which is composed of an appropriate mix of auditors for this engagement.

The auditor shall provide Curriculum Vitae (CV's) of the Audit Partner/s and the staff proposed as part of the audit team responsible for the audit.

Key Personnel

Category 1: Audit Partner

The audit partner must be a highly qualified expert with a relevant university or professional qualification who has assumed senior and managerial responsibilities in public audit practice. The Audit Partner must be a member of the Institute of Chartered Accountants of Jamaica (ICAJ). The Audit Partner must have at least seven (7) years' experience as a professional auditor in a public audit practice and demonstrate experience with auditing the accounts of entities implementing projects funded by international lending agencies.

Category 2: Audit Manager

The Audit Manager must be a qualified expert with relevant university or professional qualification. The Audit Manager must have at least five (5) years' experience as a professional auditor including relevant managerial experience of leading audit teams. The audit manager must demonstrate experience with auditing the accounts of entities implementing projects funded by international lending agencies.

Category 3: Senior Auditor

The Senior Auditor must be a qualified expert with relevant university or professional qualification and must have at least two (2) years' experience.

XI. Access to Information

Public Disclosure. The guiding principle of the World Bank's Access to Information Policy is that all information it creates is made public, unless it contains restricted information. In line with this policy, the final audit report will be publicly disclosed. Before finalizing the document, the World Bank requests the client to identify whether the document contains any sensitive information, or information whose disclosure may adversely affect relations between the Bank and the client. The Bank, as it considers appropriate, makes adjustments to the document to address the matters of concern to the client.

APPENDIX I

The following statements are the minimum requirement and should be incorporated in the audit report.

Name of project									
Sources and Uses of Funds									
FOR THE YEAR ENDING XXX									
	Current Period			Current Year End Cumulative \$US\$			Previous Year End Cumulative US\$		
	Actual			Actual			Actual		
	TF1	SF 2	SF 3	SF 1	SF 2	SF 3	SF 1	SF 2	SF 3
RECEIPTS									
Source of Financing									
Government									
World Bank									
Designated Account									
Direct Payment									
Retroactive Financing									
Total Receipts (A)									
LESS EXPENDITURES									
Component 1									
Component 2									
Component 3									
Total Expenditures (B)									
RECEIPTS LESS EXPENDITURES									
Net Change in Cash (A - B)									
Foreign Exchange Adjustment									
BANK BALANCES									
Opening Cash Balances									
Designated Account									
Project Account									
Total Opening Balance									
Closing Cash Balances									
Designated Account									
Project Account									
Total Closing Balance									

Name of Project Statement of Cumulative Investments Year Ended XXXXX			
Categories	Current Year US\$	Current Year Cumulative US\$	Prior Year Cumulative US\$
	Actual	Actual	Actual
Category 1			
Category 2			
Category 3			
Total			

DESIGNATED ACCOUNT RECONCILIATION STATEMENT

LOAN/CREDIT/PPF/COFINANCIER NUMBER _____

Source of Financing US\$

		(Total)	SF 1	SF 2	SF 3
1	TOTAL ADVANCED BY WORLD BANK (OR COFINANCIER)				
2	LESS: ELIGIBLE EXPENDITURE FOR THE CURRENT YEAR ENDED _____ DOCUMENTED BY WORLD BANK				
3	LESS: CUMULATIVE ELIGIBLE EXPENDITURE FOR THE PRIOR PERIODS ENDED _____ DOCUMENTED BY WORLD BANK				
3	PRESENT OUTSTANDING AMOUNT ADVANCED TO THE DESIGNATED ACCOUNT (1 - 2)				
4	BALANCE OF USD DESIGNATED ACCOUNT PER BANK RECONCILIATION STATEMENT AS AT YEAR END _____				
4	BALANCE OF PROJECT ACCOUNT PER BANK RECONCILIATION STATEMENT AS AT YEAR END _____				
5	PLUS: ELIGIBLE EXPENDITURE FOR THE CURRENT YEAR DOCUMENTED AFTER THE YEAR END				
6	PLUS: TOTAL AMOUNT WITHDRAWN AND NOT YET CLAIMED				
	REASON: _____				
7	PLUS: AMOUNTS CLAIMED IN PREVIOUS APPLICATIONS NOT YET CREDITED AT DATE OF BANK STATEMENTS				
	<u>APPLICATION NO.</u>				
	WA # XXX				
	WA # XX				
	SUBTOTAL OF PREVIOUS APPLICATIONS NOT YET CREDITED				
8	LESS: INTEREST EARNED				
9	TOTAL ADVANCE ACCOUNTED FOR (NO. 4 THROUGH NO. 9)				
10	DIFFERENCE (3 - 9)				

11 EXPLANATION OF ANY DIFFERENCE SHOWN IN LINE 10

APPENDIX 2

Cost Estimate of Services, List of Personnel and Schedule of Rates

(1) Remuneration of Staff

	Name	Rate (per month/day/ hour in currency)	Time spent (number of month/day/ hour)	Total (currency)
(a) Engagement Partner				
(b) Manager				
(c) Supervisor				
(d) Auditor				
Sub-total (1)				

(2) Reimbursables & Miscellaneous

	Average Rate	Days/ Quantity	Total
Local Transportation			
Miscellaneous			
Sub-total (2)			

Total Cost