

TERMS OF REFERENCE

HIRING OF AUDIT FIRM

Background

National Disaster Risk Management Fund (NDRMF) has been established as a not-for-profit company, incorporated with the Securities and Exchange Commission of Pakistan under Section 42 of the Companies Ordinance 1984 (now Companies Act 2017). It is a non-banking financial intermediary with a corporate structure, having an objective to reduce the socio-economic and fiscal vulnerability of the country and its population to natural hazards and climate change, through financing investments in disaster risk reduction and preparedness that have high economic impacts.

2. Towards above referred objectives of the Company, the Government of Pakistan has received initial financing from the Asian Development Bank (ADB), equivalent to US \$ 200.0 million, in the form of a loan and grants equivalent to US \$ 3.4 million & US \$ 1.5 million & US \$ 5.3 million from Australian, Swiss & Norwegian Governments respectively; and US \$ 188 million were provided by World Bank. The Government has made these funds available to NDRMF as a “Grant”. In addition to the financing by the International Development Partners, Government of Pakistan has also made a contribution to the Fund by bestowing a “Grant” to the tune of US \$ 25.0 million.

3. Annual Financial Statements (AFS) are prepared on Accrual basis of accounting as per the International Accounting and Auditing Standards and provisions relating to the Companies Act 2017 and include:

- Balance Sheet. Income and Expenditure Account
- Statement of Fund Flows,
- Statement of changes in Equity.
- Notes to the Financial Statements

Objective of the Assignment

4. The objective of the financial audit of the Company is to enable the auditor to express an opinion in accordance with International Standards on Auditing (“ISA”) that: the financial statements present a true and fair view of the financial performance of the entity or that the financial statements are prepared and presented in accordance with the applicable financial reporting framework.

5. Pursuant to the Companies Act, 2017, Public Sector Companies (Corporate Governance) Rules, 2013, the Company intends to appoint a “Chartered Accountant Firm”, having the following eligibility, to carry out the audit of Financial Statements of the Company **for the year ending on June 30, 2024** which may be extendable with mutual consent and approval of board. As per the scope and duties defined in the Companies Act, 2017, Public Sector Companies (Corporate Governance) Rules, 2013 (as amended to date) and International Standards on Auditing (ISA):

- Satisfactory rating under the Quality Control Review program managed by the Institute of Chartered Accountants of Pakistan;
- Its name in the State Bank of Pakistan's Panel of Auditors under Category 'A';
- **At least ten (10) years'** experience of conducting audits, systems/processes assurance, pre-award assessments and control evaluations;
- In depth experience of delivering similar/comparable services to Public Sector Companies/Organizations/International Donors or Donors' assisted projects; and having International association with Audit Firms; **At least 20 partners and 1000 professional staff;**

Scope of Services, Tasks (Components) and Expected Deliverables

6. The scope of the audit covers financial years 2023-24, which may be extendable with mutual consent and approval of board. Without detracting from the overall requirements to perform the audit in accordance with ISAs, the auditors are required to pay particular attention to the following:

- Fraud and Corruption:** In accordance with ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements) the auditors shall identify and evaluate risks related to fraud, obtain or provide sufficient evidence of analysis of these risks and assess properly the risks identified or suspected.
- Laws and Regulations:** In preparing the audit approach and in executing the audit procedures, the auditors shall evaluate the Program's compliance with the provisions of laws and regulations that might impact significantly the Project as required by ISA 250 (Considerations of Laws and Regulations in an Audit of Financial Statements).
- Governance:** Communicate with the Company's Management responsible for Governance regarding significant audit issues related to governance in accordance with ISA 260 (Communication with those charged with Governance).
- Risks:** With a view to reducing audit risks to a relatively low level, the auditors will apply appropriate audit procedures and handle anomalies/risks identified during their evaluation. This is in accordance with ISA 330 (The Auditor's Responses to Assessed Risks)

7. The auditor will review the financial statements to ensure that all the disclosures requirements of the Accrual Basis International Public Sector Accounting Standards ("IPSAS") have been complied with.

8. While performing the audit, the auditor shall pay attention to the following:

- Take into account the specific requirements of any other relevant regulations, ordinances or ministerial directives which affect the audit mandate and any special auditing requirements;
- In assessing materiality, the external auditor must, in addition to exercising professional judgment, consider any legislation or regulation which may impact that assessment;

- c) Independently report to the members in accordance with statutory and professional requirements. They shall also report to the Board and audit committee the matters of audit interest, as laid down in the International Standards on Auditing;
- d) Consider and take into account all the SRO, guidelines, rules and regulations (if any) issued by SECP from time to time that are applicable on financial reporting and will also report to members in Audit Report whether in auditors' opinion, these are complied with or not by management;
- e) To carry out the audit of project accounts in accordance with donors' guidelines and loan, project and grant agreements signed between various stake holders;
- f) Any other area which the auditor deems fit to carry out its audit independently and in accordance with applicable national and international accounting, auditing standards and applicable legislations, rules, regulations and procedures;
- g) any other final audit reports that are available for the same periods (e.g., a regulatory audit or special purpose audit reports issued to comply with the requirements of various international financing agencies who have funded a part of Company's operations), in accordance with applicable ISA.

Audit Report

9. The audited financial statements shall include:

- a) The Auditor's Report/Opinion on the Consolidated Financial Statements,
- b) Complete Set of Consolidated Financial Statements, and
- c) Management Letter

10. The **auditor's report** shall include a reference to the financial reporting framework according to which the Company's financial statements are prepared.

11. Each page of the audited financial statements shall be initialed/signed by the auditor for identification purposes. The auditor's report shall comply with the requirements of ISA 700 "The Independent Auditor's Report on General Purpose Financial Statements". The auditor shall address its report to the Board of Directors of the Company. The auditor's report shall include the following elements:

- a) A title
- b) An addressee
- c) An introductory paragraph that identifies the financial statements audited
- d) A description of the responsibility of management for the preparation of the financial statements
- e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes, a reference to International Standards on Auditing and the law or regulation and a description of an audit in accordance with those standards.
- f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements and application of funds for the purpose intended in the financing agreement.
- g) The auditor's signature

- h) The date of the auditor's report
- i) The auditor's address.

Management Letter

12. On conclusion of the audit, the auditor shall prepare a management letter, detailing the following:

- a) Any material weaknesses in the accounting and internal control systems that were identified during the audit;
- b) Recommendations to rectify identified weaknesses;
- c) Practical recommendations on the steps that the organization could take to become materially compliant with the agreed accounting standards (see terms and definitions), together with a time frame for making these changes;
- d) Any other matters that the auditor considers should be brought to the attention of the organization's management.

13. The auditor should have the following key experts in their team, to carry out the annual audits:

S. #	Designation	Position	International/ National	Input (Person Months)
1	Team Leader /Coordinator	1	National	1
2	Senior Auditor-1	1	National	1
3	Senior Auditor-2	1	National	1
7	Audit Officer-1	1	National	2
8	Audit Officer-2	1	National	2
9	Audit Officer-3	1	National	2
Total =		06		09

Team Leader/Coordinator: The expert should have at least CA/ACCA or equivalent degree qualification with **twelve (12) years** relevant experience post chartered accountant or equivalent qualification. The expert will bear the overall responsibility for the audit carried out by the firm and will ensure correctness and soundness of the procedures applied for the audit in accordance with applicable rules of audit in the country. The expert shall have previous experience leading the team on similar assignments of at least five years.

Senior Auditor(s): The expert should have CA/ACCA or equivalent degree qualification along with **Eight (08) years** relevant experience post chartered accountant or equivalent qualification. The expert(s) will be responsible for advice and supervision to the team engaged for the audit and will also interact with the management of NDRMF at appropriate level to convene the audit process.

Audit Officer (s): The expert should have at least CA Inter/CAF or equivalent qualification and have completed CA articles. The expert should have **at least four (04) years** relevant experience post CA articles. The expert(s) will carry out the audit with due support and guidance from the

management in accordance with the applicable rules and procedures of auditing and will engage with the NDRMF for retrieve and assess the data for the purpose of audit.

14. The auditor shall be impartial and independent from any aspects of management or financial interest in the entity 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.

15. The auditor must be authorized to practice in the country 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 entities comparable in nature, size, and complexity to the entity whose audit they are to undertake. To this end, the auditor is required to provide curriculum vitae (CV) of the auditors who shall provide the opinions and reports, together with the CVs of managers, supervisors, and key personnel likely to be involved in the audit work, as referred to above. These CVs should include details of audits carried out by these staff, including ongoing assignments.

Reporting Requirements and Time Schedule for Deliverables

16. The auditor shall provide the following opinions and reports to the Board of Directors, in accordance with the following timeframes:

- a) An Audit Opinion on the Annual Consolidated Financial Statements for FY 2023/24, and
- b) Management Letter(s).

17. The audit of the Annual Financial Statement for each Fiscal Year i.e. 2023/24, will need to be completed within one month's time and the report must be in the English language. Audit may be extendable with mutual consent and approval of board.

Client's Input and Counterpart Personnel

18. The auditor shall have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreements, bank records, invoices, and any other information associated with the affairs of the Company and deemed necessary by the auditor.

19. The auditor shall be provided with full cooperation by all employees of the Company. The auditor shall be assured rights of access to banks and depositories, consultants, contractors, and other persons or firms hired by the employer

20. The Management of the Company shall provide the following financial statements and supporting documentation to the auditor within 5 working days as soon as the audit of the respective fiscal year is due:

- Draft Annual Financial Statements for respective Fiscal Year including:
 - Receipt & Payments statement

- Fund flow statement
- Comparison of Budget versus Actual
- Notes to the financial statements
- Financial Management Manual,
- All lead accounting schedules and supporting documentation,
- All the Manuals, policies, guidelines, SOPs of the Company

Payments

21. The auditors shall be paid for each year's financial audit on achieving the milestones associated with respective payments. The respective milestone shall be subject to the approval of required outputs by the competent authority of the Company:

S #	Milestone	Time Period for Payment	Payment
1	Report on Financial Statements of respective Fiscal Year, of the Company as per the requirements of Companies Act, 2017 and applicable Auditing standards as adopted / approved by ICAP and SECP.	Within 15 Days of signing of contract.	50%
2	Compliance statement with the Public-Sector Companies Corporate Governance Rules, 2013	Within 15 days of signing of contract.	35%
3	Upon Completion and submission of all documentation	Within 20 days of signing of contract.	15%