

TERMS OF REFERENCE

External Auditor for the Audit of Annual Project
Financial Statements

Of

Plastic Free Rivers and Seas for South Asia Project
for the year ended 31 December 2024

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I. INTRODUCTION

Project

The Project Development Objective is to strengthen innovation and coordination of circular economy solutions to plastic pollution flowing into the South Asian Seas. Mainly comprised with three components as below,

Component 1- Supporting Competitive Block Grant Investments to Reduce Plastic Waste

Component 2- Leveraging Public and Private Sector Engagement and Solutions

Component 3- Strengthening Regional Integration Institutions

Key Information

Grant Number	D648-8S
Grant Amount	IDA -USD 37Mn (SDR 27.2Mn) Parlay - USD 13 Mn (Co-financing)
Commitment Charges	Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Grant Balance.
Bank Approval	May 29,2020
Agreement Signing Date	June 08,2020
Project Effectiveness	August 12, 2020
Project Closing Date	July 31, 2025.

Project Implementation Arrangement

The South Asia Co-operative Environment Programme (SACEP), the receipt of the grant is an inter-governmental organization established by Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka in 1982 to promote and support the protection, management, and enhancement of the environment in the region.

The Project Implementation Unit (PIU) has been established by the SACEP Secretariat to assist the project implementation and be administratively housed within the Secretariat as a subsidiary organ, which it can establish according to its existing mandate. The PIU is responsible for all aspects of the day-to-day management of the project, including planning, budgeting, technical coordination, implementation supervision, M&E, and ensuring compliance with the World Bank environmental and social (E&S) standards.

The PIU is led by a Project Director and includes a team of specialized staff responsible for project management, financial management, procurement, environmental safeguards, social safeguards,

monitoring and evaluation, communications as well as support staff. The PIU liaise closely and also ensure overall coordination of all project entities to ensure necessary data and information are shared and collated for reporting to the Project Steering Committee and the World Bank. The PIU is based in Colombo, Sri Lanka.

Financial Management Arrangement

Staffing- The Financial Management Specialist in the PIU is responsible for managing day to-day FM activities for the project, which may include (a) project budgeting, disbursement planning, and forecasting; (b) operating the DA and LKR account, including claiming replenishments, disbursement of funds, and making required payments; (c) maintaining books and records for project financial transactions; (d) submitting quarterly IUFs; (e) preparing annual financial statements; and (f) interacting with project external auditors on audit issues and follow-up (g) ensuring that suitable internal controls are being maintained including for Regional Block Grants (RBGs) administered by SACEP and any other FM matters deemed necessary by the World Bank.

Accounting and reporting- Separate books of accounts, and ledgers for the project are maintained by the PIU in accordance with their existing accounting framework. The project uses QuickBooks Premier 2021 to computerize all the project transactions and obtain reports.

II. MANAGEMENT RESPONSIBILITY FOR PREPARING PROJECT FINANCIAL STATEMENTS

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 Project Financial Statements.
- ii. Prepare and sign a Statement of Compliance.

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 procedure, where applicable, has been operated in accordance with the World Bank's (WB) Loan Disbursement Handbook;

- v. That adequate supporting documentation has been maintained to authenticate claims stated on the Interim Unaudited Financial Statement (IUFR), where applicable, for reimbursement of eligible expenditures incurred and documentation of advances provided to the advance account; and
- vi. That adequate supporting documentation has been maintained to authenticate claims stated on the Interim Unaudited Financial Statement (IUFR), where applicable, for reimbursement of eligible expenditures incurred including for RBGs and documentation of advances provided to the advance account; and
- vii. That effective internal control, including over the procurement process, was maintained.

III. OBJECTIVES

The objectives of the audit of annual project financial statements are to (i) enable the auditor to express an opinion on 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 of Grant D648-8S, for the fiscal years ending on 31 December 2023, and on the funds received and expenditures made within the audit years and (ii) provide a reasonable assurance opinion over certain specific representations made in the Statement of Compliance.

IV. AUDITING STANDARDS

The audit is required to be conducted in accordance with International Standards of Auditing. 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.

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

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

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

The auditor will verify that the project financial statements have been prepared in accordance with International Accounting Standard (IAS) for cash-based accounting issued by the International Accounting Standards Board (IASB). The implementing unit is responsible for preparing the project financial statements, not the auditor.

VI. AUDIT DELIVERABLES

A. Audited Project Financial Statements

An auditor’s opinion providing reasonable assurance over the project financial statements, and project financial statements comprising the following and shall be completed by **20th June 2025**:

- A statement of financial position (balance sheet)
- A statement of financial performance (income and expenditure statement)
- A statement of cash flows
- A statement of advance account reconciliation
- Significant accounting policies and explanatory notes

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

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

The auditor will outline the degree of compliance for each of the financial covenants in the grant agreements.

C. Management Letter

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 account and IUFR 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 expenditure 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

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

- i. The use of project funds in accordance with the relevant legal and financing agreements;
- ii. The maintenance of proper books and records;
- iii. The provision of counterpart funds in accordance with the relevant agreements and their use only for the purposes intended;
- iv. The existence of project fixed assets and internal controls related thereto;
- v. Where the audit report has been issued under ISA 800, 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. Adequate supporting documentation has been maintained to authenticate claims stated in the liquidation of advances provided to the advance account including for RBGs;

VII. OTHER MATTERS

A. Statement of Access

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.

The auditor will be provided with full cooperation by all employees of PLEASE Project as well as SACEP and stakeholders, 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.

B. Independence

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.

C. Auditor Requirements

The auditor should fulfill the following requirements:

(i) The auditor must be authorized to practice in the country and be capable of applying the agreed auditing standards.

(ii) 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