

Terms of reference

for the audit services for the “Integrated Nutrient Pollution Control Project (INPCP)– Additional Finance”

1. Background

Romania has received in 2008 a loan from the International Bank for Reconstruction and Development (IBRD) and a Grant from the Global Environment Facility (GEF) to support the implementation of the Integrated Nutrient Pollution Control Project (INPCP or the Project) in selected localities vulnerable or potentially vulnerable to the pollution with nutrients. The overall development objective of the project was to support the Government of Romania to meet the EU Nitrates Directive requirements by (a) reducing nutrients discharges to water bodies, (b) promoting behavioural changes at the communal level, and (c) strengthening institutional and regulatory capacity. The ultimate goal was to reduce over the long-term the discharge of nutrients and other agricultural pollutants into the Danube River and Black Sea through integrated land and water management.

The closing date of the initial sources of financing under INPCP was 31st of May, 2017. Ministry of Waters and Forests (MoWF) received an Additional Financing (AF) for the INPCP to finance the costs associated with the scale-up nationwide of the initial Project activities, to be implemented over a six years period. The AF for scaling-up will broadly maintain the objectives and structure of the INPCP with slight modifications, intended to reflect the realities of the current situation and lessons learned so far. The AF amounts to EUR 48 million and finances works, goods, services and operating costs under four components, which are largely the same as in the initial INPCP, with slight modifications: (i) Component 1: Investments in Local Communities to Reduce Nutrient Pollution; (ii) Component 2: Support for Institutional Strengthening and Capacity Building; (iii) Component 3: Public Awareness and Information Support; and (iv) Component 4: Project Management. Project-supported local beneficiaries will contribute towards the costs of the project by financing the feasibility studies for the investments envisaged under component 1.

Through the AF the overall development objective of the Project became to support the Government of Romania towards meeting the EU Nitrate Directive requirements at a national scale. The proposed interventions will build on the successes and lessons learned from the initial Project as well as from similar projects in Europe and Central Asia and other regions.

The AF became effective on 13th of April 2017 and it was ratified by Romania through law 46/03 April 2017. Its closing date is March 31, 2022, having a 4 months grace period for concluding the last payments, reimbursement of the Loan proceeds for eligible expenses and bookkeeping.

The Project is implemented by the Project Management Unit (INPC-PMU), located in Bucharest, at the premises of the Ministry of Waters and Forests (MWF) unit which has the entire responsibility for the achievement of the Project activities and administration on sources of its funds. The INPC-PMU produces the project’s accounting and reporting documents, including Interim un-audited Financial Reports (IFRs), every calendar semester, for the Loan. The INPC-PMU also coordinates the auditing process and signs the audit contract for the entire project implementation.

2. Objectives of the Assignment

The objective of the audit is to enable the auditor to express an opinion on the financial statements of the “Integrated Nutrient Pollution Control Project – Additional Finance” as of December 31st, 2017 for the period starting with the Date of Project effectiveness, as of December 31st, 2018, as of December 31st, 2019, as of December 31st, 2020, and also as of March 31, 2022 plus any transactions incurred during the grace period ending July 31st, 2022, according to the present terms of reference. The audit will cover, through four annual reports, the period between April 13, 2017 and December 31st, 2020, plus the fifth audit report, for the period starting January 1st, 2021 and ending March 31st, 2022, plus any transactions incurred during the four months grace period which ends on July 31st, 2022. For the fifth audit report, the PFS will be presented separately, for every fiscal year.

The Project’s accounting system (books and records) provides the basis for the preparation of the PFS and it was established to record the financial transactions of the Project and maintained by the Project Management Unit (PMU) within Ministry of Waters and Forests (MWF). The documents that will be audited are available at the PMU office in Bucharest.

3. Scope of the Audit

The audit will be conducted in accordance with International Standards on Auditing (ISA) as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). Those Standards 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:

- a) 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 [International Standard on Auditing 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements](#).
- b) 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 [International Standard on Auditing 250: Consideration of Laws and Regulations in an Audit of Financial Statements](#).
- c) 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 [International Standard on Auditing 260: Communication of Audit Matters with those Charged with Governance](#).
- d) The auditor should communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements as required by [International Standard on Auditing 265:](#)

[Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.](#)

- e) In order 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 [International Standard on Auditing 330: The Auditor's Procedures in Response to Assessed Risks.](#)
- f) In instances where 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 [International Standard on Auditing 402: Audit Considerations Relating to an Entity Using a Service Organization.](#)
- g) 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 [International Standard on Auditing 580: Written Representations.](#)

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

- a) External funds have been used in accordance with the conditions of the relevant general conditions, relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which financing was provided. The relevant financing agreement is Loan no. 85970-RO between Romania and the International Bank for Reconstruction and Development, with a value of 48 mil euro, signed at Bucharest, on April 14, 20016 and ratified by Law no. 46/2017, effective starting with April 13, 2017;
- b) All budgetary pre-financing funds have been provided and 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.;
- c) Works, goods, and services financed have been procured in accordance with the relevant general conditions and relevant financing agreements¹, including specific provisions of the World Bank Procurement Guidelines²;
- d) Necessary supporting documents, records and accounts have been kept in respect of all Project ventures including expenditures reported via Statement of Expenditures (SOEs). The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;

¹ Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of [International Standard on Auditing 620: Using the Work of an Expert.](#) Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance.

² See Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011 edition, revised July 2014) and Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011 edition, revised July 2014)

- e) Where Treasury Account/other bank's accounts have been used, they have been maintained in accordance with the provisions of the relevant general conditions and relevant financing agreement;
- f) The PFS have been prepared in accordance with generally accepted accounting principles and practices and relevant World Bank guidelines and give a true and fair view of the financial position of the " as of December 31st, 2017 for the period starting with the Date of Project effectiveness, as of December 31st, 2018, as of December 31st, 2019, as of December 31st, 2020, and also as of March 31, 2022 plus any transactions incurred during the grace period ending July 31st, 2022 and of the resources and expenditures for the fiscal years then ending. The PFS will be presented separately, for every fiscal year or any other reporting period, as indicated.
- g) Review the compliance on each of the financial covenants in the Loan Agreement.

Project Financial Statements

The Project Financial Statements should include:

- a) a Summary of Funds received, showing the World Bank, Projects funds and counterpart funds separately, if any.
- b) a Summary of Expenditures shown under the main project headings and by main categories of expenditures, both for every current fiscal year and accumulated to-date;
- c) a Summary of SOEs used as the basis for the submission of withdrawal applications;
- d) a Statement of Treasury Pre-Financing Account,
- e) a Balance Sheet showing Accumulated Funds of the Project, bank balances, other assets of the Project, and liabilities, if any;
- f) Notes, comprising a summary of significant accounting policies and other explanatory notes.

Statements of Expenditures (SOEs)

The auditor is required to audit all SOEs submitted to the World Bank in support of requests for periodic reimbursement of the project eligible expenditures pre-financed from the State Budget for the IBRD Loan.

Expenditures should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Paper and other relevant project documents. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, they should be separately reported.

The Project Financial Statements should include a schedule listing of SOEs withdrawal applications by specific reference number and amount.

The auditor should pay particular attention as to whether:

- a) the SOEs have been prepared in accordance with the provisions of the relevant financing agreements;
- b) expenditures have been made wholly and necessarily for the realization of project objectives;
- c) information and explanation necessary for the purpose of the audit have been obtained;
- d) supporting records and documents necessary for the purpose of the audit have been retained, and
- e) the SOEs can be relied upon to support the related withdrawal applications.

Audit Opinion

The project's audit reports should be prepared separately for the budgetary pre-financing funds, eligible within the IBRD Loan Agreement and should include an opinion on the Project Financial Statements prepared (refer to the "Project Financial Statements" paragraph above for a definition of the statements included therein).

In addition to the audit reports on the Project, the auditor will a "management letter" for the operations made under the Loan Agreement, in which the auditor will:

- a) provide comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
- b) identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
- c) report on instances of non-compliance with the terms of the relevant financing agreement;
- d) quantify and report expenditures that are considered to be ineligible and either paid out of the Treasury account or which have been claimed from the World Bank;
- e) communicate matters that have come to their attention during the audit which might have a significant impact on the implementation of the project;
- f) bring to the Borrower's attention any other matters that the auditors considers pertinent, and
- g) include management's comments in the final management letter.

If none of the above applies, and a management letter is therefore not prepared, the auditor will issue a letter stating that during the audit nothing has come to their attention that the auditor considers pertinent to be brought to the attention of the Borrower.

For audited period, the auditor should submit to the Client - the INPC- PMU, for every audited fiscal year ending December 31st, 2017, 2018, 2019 and 2020 and also for the period starting January 1st, 2021 and ending March 31st, 2022, plus any transactions incurred during the four months grace period which ends on July 31st, 2022, in one package: (i) one audit report for budgetary pre-financing funds under the IBRD Loan and (ii) one "management letter" one for the operations made under the Loan Agreement. The reports will be prepared in three (3) copies (of each version: Romanian and English) and will be submitted under authorized signature of the Auditor (as per contract provisions).

4. Time Schedule

The financial statements, including the audit opinions, and management letters should be received by the Project's implementing agency, the PMU, no later than:

- June 15, 2018 - for the period starting April 13th, 2017 and ending December 31st, 2017;
- June 15, 2019 - for the period starting January 1st, 2018 and ending December 31st, 2018;
- June 15, 2020 - for the period starting January 1st, 2019 and ending December 31st, 2019;
- June 15, 2021 - for the period starting January 1st, 2020 and ending December 31st, 2020;
- July 15th, 2022 – for the period starting January 1st, 2021 and ending March 31st, 2022, plus any transactions incurred during the four months grace period which ends on July 31st, 2022

The Project's implementing agency should then promptly forward two copies of the audited project financial statements (including audit opinion) and management letter to the Bank.

The audit reports and management letters will be due to the Bank before:

- June 30, 2018 - for the period starting April 13th, 2017 and ending December 31st, 2017;
- June 30, 2019 - for the period starting January 1st, 2018 and ending December 31st, 2018;
- June 30, 2020 - for the period starting January 1st, 2019 and ending December 31st, 2019;
- June 30, 2021 - for the period starting January 1st, 2020 and ending December 31st, 2020;
- July 31st, 2022 – for the period starting January 1st, 2021 and ending March 31st, 2022, plus any transactions incurred during the four months grace period which ends on July 31st, 2022

5. Duration of the assignment

The assignment for the audit is expected to commence on a date further agreed between parties, but no later than April 15th, 2018 at the INPC – PMU premises within the Ministry of Waters and Forests.

6. Consultant's Profile and estimated level of effort

In order to perform the audit services, the Audit firm should have experience of at least 5 years in auditing complex entities, based on the International Accounting standards (IAS) and International Standards on Auditing (ISA), and preferably internationally-financed projects, following specific procurement and disbursements guidelines. In this respect, the Auditor is expected to provide appropriate references. Experience in auditing World Bank and/or EU financed projects will be a plus.

The audit firm should have an affiliation (i.e. be a member) in an accounting association with International Federation of Accountants (IFAC) membership.

The firm is advised to provide for carrying out the audits a team consisted of at least three (3) experts / auditors, whose input is estimated to one (1) man month each. One of the proposed experts/ auditors will be team leader, in charge with coordinating the audit team, supervising the timely report preparation and submission to the Client.

It is expected that the team to cover the following skills and expertise:

- minimum university degree in the field of finance, accounting, economics or equivalent; a national and/or international professional certification in accounting and auditing would be desirable;
- experience of at least 5 years in auditing based on IAS and ISA, including public sector entities and IFI-financed projects;
- experience in auditing internationally-financed projects, including experience in auditing World Bank financed projects would be desirable;
- proficiency in English language.

Also, the auditors should be familiarized with the GO 64/2007 and the subsequent methodological norms and other relevant legislation related to the public finance and debt management system.

The team leader should have, in addition to the qualifications mentioned above, experience in a team leader / coordinator position held in at least 3 previous assignments. One (1) professional certificate from relevant institutions in the fields of project management represents a plus.

7. Public Disclosure

In accordance with "The World Bank (the Bank) Policy on Access to Information" dated July 1, 2010 for Bank-financed operations for which the invitation to negotiate is issued on or after July 1, 2010, the Bank requires that the borrower makes the audited financial statements publicly available in a timely fashion and manner acceptable to the Bank. In addition, following the Bank's formal receipt of these financial statements from the borrower, the Bank makes them available to the public in accordance with this policy.

Management Letters, special audits (i.e. whose nature is not financial), and unaudited financial statements (e.g. Interim Financial Reports) are not considered to be a part of the definition of the audited financial statements for the purposes of disclosure.

Only in exceptional cases the Bank may agree—i.e., when the audited financial statements contain proprietary or commercially sensitive information—that the borrower or designated project entity may be exempted from disclosing the full set of audited financial statements, but is still required disclosing an abridged version of them in a form acceptable to the Bank. Exceptions are approved by World Bank management.

8. Procedures starting with 2009 fiscal year

The Government of Romania and International Bank for Reconstruction and Development signed on September 19, 2008 a Memorandum of Understanding (MoU) regarding the implementation of the Bank financed projects under the provisions of the Public Debt law (Government Decision no. 64/2007).

The MoU aims at facilitating the new lending policy framework between Romania and IBRD without affecting the terms and provisions of the loan arrangements in force between Romania and IBRD. Therefore, the eligible expenditures of the project financed through loans provided by IBRD will be pre-financed out of the State Budget allocations to the main spending units directly through the line ministries. Ministry of Public Finance (MoPF) will be reimbursed from the IBRD' loans in accordance with the internal procedures of the Government. The reimbursed funds will be used by the MoPF in accordance with the provisions of the Public Debt law.

The Government will process foreign currency payments on contracts financed by the Bank through Treasury or using other banking institutions. The MoPF shall ensure the based on the requests of the lines ministries, appropriate budget allocations are made available yearly for the project implementation/execution throughout the project life.

All transactions relating to the Bank financed projects shall be accounted for both in local currency and in the currency of the loan. All transactions shall be reported to the MoPF and the Bank in local currency and in the currency of the loan reflecting the exchange rate of the date transaction. For reporting purposes, the existing frequency and format reporting (Financial Monitoring Reports and Interim Financial Reports) shall continue in accordance with the provisions of the existing loan arrangements.

Starting with 2009, withdrawal applications are prepared by the MoPF using the reimbursement method, based on supporting documentation acceptable to the Bank. Withdrawal applications shall be submitted quarterly or at any other mutually agreed frequency.

9. General

The responsibility for the preparation of financial statements including adequate disclosure is that of the management of the Project Management Unit (PMU), and MWF. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the entity. As part of the audit process, the auditor will request from management written confirmation concerning representations made to the auditor in connection with the audit.

The audited financial statements will be disclosed to the public in a manner acceptable to the Bank; following the Bank's formal receipt of these statements from the borrower, the Bank makes them available to the public in accordance with the World Bank policy on Access to Information.

The PMU and local beneficiaries (if the case may be) will co-operate fully with the auditor and will make available to the auditor whatever records, documentation and other information is requested by the auditor in connection with the audit. 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 become familiar with the relevant World Bank guidelines, which explain the Bank's financial reporting and auditing requirements, and which include:

- Reference Material to the Financial Management Manual for World Bank-Financed Investment Operations (March 2010): *RM 3-Financial Reporting and Auditing*;
- Loan Handbook for World Bank Borrowers, dated February 2017 (available at <http://siteresources.worldbank.org/BORROWERPORTAL/Resources/DisGuideEng.pdf>);
- World Bank Disbursement Guidelines for Investment Project financing, dated February 2017 (available at: <http://siteresources.worldbank.org/BORROWERPORTAL/Resources/DisGuideEng.pdf>);
- Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants - January 2011, and revised in July 2014;

- Guidelines: Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank Borrowers - January 2011, and revised in July 2014;
- Memorandum of understanding signed between Government of Romania and International Bank for Reconstruction and Development dated on September 19th 2008;
- Government Decision no. 64/2007 regarding the public debt law.

This term of engagement will remain effective for future fiscal years unless it is terminated, amended or superseded.

The auditor should understand that working papers under World Bank project can be subject to the review by authorized Bank staff.