

CARE Nepal

Terms of Reference for Audit

1. Introduction of CARE

CARE is a leading humanitarian organization committed to saving lives and fighting poverty and social injustice. It has been working in over 100 countries across the globe. Working alongside a vast network of partners globally, CARE works to rebuild and improve the lives of the most disadvantaged, poor, and vulnerable communities.

CARE started its operations in Nepal in 1978 and is one of the first international aid agencies to work in the country. During the last 4 decades, CARE Nepal has been working with the most vulnerable communities of Nepal to address the issues of poverty and social injustice, along with challenging harmful social practices, building capacities and empowering livelihoods. Today CARE Nepal works to address systemic and structural causes of poverty and social injustice such as discrimination based on gender, caste, class, ethnicity, or geography. CARE supports humanitarian actions to address vulnerabilities from climate change and natural disasters. CARE works with marginalized women and adolescent girls to ensure their empowerment, wellbeing and dignity through social transformation and access to quality social and economic services.

2. Scope of work for financial audit.

The financial audit shall cover the accounts of CARE Nepal's own program activities and the activities of partners where the fund is channelized. The external auditor shall carry out the audit according to the Nepal Standards on Auditing (NSAs) issued by the Institute of Chartered Accountants of Nepal (ICAN) and the audit instructions that are distributed annually from the donors. In addition, the external audit shall observe relevant rules & regulation of the organization and perform audit accordingly. Besides performing the routine work of verifying the financial transaction and related documents, the external auditor should also point out the vulnerable or risk areas where the management should pay their attention, adherence to policy and procedures and make necessary recommendations to the Country Director for improvements.

For the expenditure and the programs implemented by partners organization external auditor should check the audit report of the partners to issue an opinion on whether or not the auditor's reports are qualified and confirm that the partners auditors are certified as authorized public auditors or certified public accountants. The external auditor may conduct the audit of the partner's organization on a sampling basis based on the risk assessment in order to ensure that the funds provided by CARE Nepal are spent as per the objectives of the MOU or agreement.

It is expected that the visit to CARE Nepal office and partner managed projects are included in the external auditor's work. Audit plans shall be finalized after discussion with CARE Nepal Internal Auditor and Director-Finance & Program Support. The External Auditor should pay particular attention to recommending improvements to the financial and internal control systems of CARE Nepal and its partner organizations covered in the audit. The audit deliverables should cover management letters outlining summarized as well as detail recommendations for each entity selected during the audit process.

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3. Legal Compliance

The external auditor shall ascertain as to whether CARE Nepal operations are in compliance with the national laws and regulations, focusing but not limited to the following.

- Income Tax, VAT related laws and regulations
- Labor Laws & Regulations
- Social Welfare Council (SWC) Laws & Regulations
- Any other as applicable

The external auditor is also expected to inform and educate the organization of any changes in financial and government rules and regulations that are relevant to CARE Nepal in a timely and appropriate manner.

4. Evaluation of internal control

The external auditor shall evaluate and comment upon the internal control system of the organization (both at CO and field offices) during each audit/ review engagement and providing feedback and suggestions to improve the weakness. This should be in the form of management report directed to the Country Director. The external auditor is expected to bring serious, financial, operation and repeated noncompliance issues to the attention of the Country Director as and when they arise.

The external auditor should also evaluate if the current control system lends itself to the safeguarding of the asset from loss and misuse, the reliability and the integrity of the expenses and statement, sub ledgers and compliance with donor policies and procedures. Auditors are expected to support CARE Nepal in designing and implementing improved control procedures.

The external auditors shall report to the country director regarding any weakness in internal control and the accounting procedures and practices together with recommendations for improvements.

The scope of internal control may vary with the nature of activities in each program. The scope should cover all the areas based on the operation model and complexity of the organization highlighting to below mentioned core areas

- Cash and bank disbursement to pay for goods and services received.
- Procedure for ordering, receiving, accepting and recording the acquisition of goods and services.
- Verification of vouchers (payment, receipt and adjustment) of the country office and field/project offices confirming that documents are prepared as per the standard accounting principles and CARE's policies, rules and regulations.
- Perform control review established to safeguard country resources-Property/inventory Management.
- Adequacy of control over outstanding receivable and payable balances.
- Perform reasonable assurance through third party confirmation.

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5. Substantive Audit Work

In addition to evaluating internal controls, the External Audit shall perform substantive testing. The nature and extent will depend on the auditors' risk assessment and the effectiveness of internal controls. The substantive test shall always be included.

- Physical inspection of material inventories and fixed assets.
- Match requirements of the project and reasonableness of the matching provided by CARE Nepal if applicable.
- Test of cash and bank disbursement to ensure that these are supported by original vendor's invoices and they genuinely represent settlement for goods and services actually received.
- Unsupported disbursements/accruals, unauthorized payments which cannot be explained, shall immediately be reported under confidential cover directly to the Finance & Program Support Director or equivalent position.
- Evaluation and control of employee benefits, to ensure that these are in compliance with contracts of employment, including CARE Nepal's terms and condition for national /international/hosted staff.

We expect following reports from the External Auditor in a year:

- **Financial audit of CARE Nepal.** We expect to receive one statutory audit report and financial statement certification of CARE Nepal each year within statutory completion timeline.
- **Tax audit of CARE Nepal.** We expect timely submission of tax return and provide supporting evidence of return filing of CARE Nepal each year within statutory completion timeline and assist CARE Nepal's team in tax filing.
- **Agreed upon procedures/expenditure verification/project audit.** We have a requirement that few donors ask for separate certification of financial report/statement of the project as per the donor requirements. During this fiscal year, we have two projects for which financial report/statement needs to be certified. (Please refer to the annex for details of the project).

A separate agreement will be entered between the audit firm and CARE Nepal for each project before the audit starts to address the requirement of the specific project/ donor. Scope of work, financial deliveries, audit timeline, audit instructions from donors if any will be part of that agreement.

6. Coordination and reliance with CARE Nepal Internal Auditor

While conducting all audit and review engagements the External Auditor shall work in coordination with the internal audit unit of CARE Nepal. CARE Nepal Internal Auditor works as bridge between External Auditor and the CARE Nepal management. However, this arrangement does not restrict the direct access of auditors with the Country Director and or any other positions within CARE Nepal.

The External Auditor is required to develop audit plan indicating the durations, nature of engagement, allocation of human resources etc. amongst others. While formulating the audit plan the External Auditor is required to coordinate with the Internal Auditor and consider internal audit

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plan to avoid any duplication of efforts and achieve maximum synergies of the two functions. External Auditor, depending on the matter and situations, are encouraged to rely to the extent possible on the work done by the Internal Auditor while planning and conducting the engagement.

7. Competencies and involvement expected

The External Auditor must deploy adequate number of reasonably qualified & diverse human resources to conduct the audit engagements. The Partner and the Team Leader to be involved in this assignment must have minimum five years of experience in public practice. Reasonable exposure/understanding of the national as well as international development issues and general business/operating models of not-for-profit organizations are highly desired. We expect engagement of highly qualified team members while delivering the engagement throughout the audit period.

We expect at least audit kick off and exit sharing meeting should have happened during audit period where engagement partner along with team members and, CARE Nepal's Country Director, Finance & Program Support Director and Internal Auditor must be in the meeting along with other team members.

8. Other

The External Auditor cannot disclose the audit report and other information outside related to the organization without the explicit written permission from the Country Director. The duration of the audit agreement will be for one year and can be extended and the extension will be based on the performance of the engagement.

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Annex-A

Projects requiring certification during this period

Project Name	Donor
Samrakshyan	Jersey Overseas Aid Commission
Climate Smart Village in Nepal-CSVN	Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology (BMK)

Annex-B

Major Points to be considered during this process

- Statutory Audit, Tax Audit costs and project certification costs should be clearly segregated in the cost proposal.
For auditing each project average cost per project should be quoted this rate will be taken as standard audit fee for each project audit certification regardless of size and complexity of the project. The standard rate will be the same if additional projects other than as mentioned above also require separate audit/certification/verification. However, for other reviews and non-audit engagement fees will be determined based on the negotiation considering volume, level of effort required and available budget.
- Logistic arrangements related to travel to the field office (such as vehicle hire, air tickets, etc.) will be managed by CARE Nepal.
- Per diem and lodging during the time of field visit should be paid by the firm initially, CARE will reimburse the per diem upon receipt of the settlement documents/original receipts along with Travel Expenses Report in CARE's standard format (DSA and lodging rate will be as per the CARE Nepal policy).
- CARE will not provide daily meals during the audit at Kathmandu Valley, however, in the case of field visits, which will be covered in standard DSA rates.
- Audit period: Statutory and Tax Audit as per the Nepali Fiscal Year
- Project Audit: as per the need of the donor due to be completed within the Fiscal Year
- Fees quoted for statutory, tax and project specific audit should be valid for three consecutive years

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Overall Evaluation Matrix: Selection of Audit Firm

Component	Description
Technical Proposal	Quality, experience, methodology, and team strength
Financial Proposal	Cost competitiveness and value for money
Total	Combined weighted score

Criteria	Evaluation Basis
Registration and renewal with ICAN and a valid practicing license, audit report, recent tax clearance, VAT registration, legal documents, and company profile	Mandatory compliance
Affiliation with international audit/accounting networks	International Affiliation/Association Certificate
Experience in auditing INGOs/NGOs and related areas	Number, nature, scale, and complexity of assignments
Experience with donor-funded projects (USAID, FCDO, EU, UN, Private Foundations & Individual Donors etc.)	Relevance to funding partners

Audit Approach & Methodology

Criteria	Evaluation Basis
Understanding of ToR and risk environment	Clarity and depth of proposal
Audit methodology (risk-based audit, sampling, materiality)	Alignment with NAS for NPOs/ NFRS /IFRS
Internal control evaluation approach	Tools, techniques, and frameworks
Quality assurance and value addition to the organization	Review mechanism, sector understanding & best practices with scenario/example.

Key Personnel & Team Composition

Criteria	Evaluation Basis
Team Leader (CA qualification, experience)	Minimum 5 years of relevant experience
Audit team composition and expertise	Diversity and Team Composition